



METROPOLITAN
KNOXVILLE
AIRPORT
AUTHORITY

2017 Comprehensive Annual Financial Report

*A component unit of the City of Knoxville, Tennessee
For the fiscal years ended June 30, 2017 and 2016*

PREPARED BY:

Accounting and Finance Department of Metropolitan Knoxville Airport Authority

www.flyknoxville.com

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Metropolitan Knoxville Airport Authority
Knoxville, Tennessee

A COMPONENT UNIT OF THE CITY OF KNOXVILLE

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2017 and 2016

PREPARED BY THE ACCOUNTING AND FINANCE DEPARTMENT

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Introductory Section

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OFFICIALS

As of June 30, 2017

| Board of Commissioners | Position | Term Expires |
|-------------------------------|----------------------------|---------------------|
| Howard H. Vogel | <i>Chairman</i> | June 30, 2020 |
| Brian M. Simmons | <i>Vice Chairman</i> | June 30, 2018 |
| Eddie Mannis | <i>Secretary</i> | June 30, 2023 |
| Joseph M. Dawson | <i>Assistant Secretary</i> | June 30, 2023 |
| Julia A. Bentley | | June 30, 2024 |
| Charles R. Harr | | June 30, 2022 |
| Maribel Koella | | June 30, 2021 |
| Gwen McKenzie | | June 30, 2019 |
| Jeff W. Smith | | June 30, 2023 |

OFFICERS AND KEY STAFF MEMBERS

| | |
|---------------------------------|--|
| William F. Marrison, A.A.E. | <i>President</i> |
| Michael R. Bachman, A.A.E., CPA | <i>Vice President of Finance & Administration</i> |
| James H. Evans, Jr. | <i>Vice President of Marketing & Air Service Development</i> |
| Trevis D. Gardner, A.A.E. | <i>Vice President of Airport Operations</i> |
| Bryan White, PE | <i>Vice President of Engineering & Planning</i> |
| Willie T. Aiken | <i>Director of Public Safety</i> |
| Becky Huckaby, APR | <i>Vice President of Public Relations</i> |
| Nancy White, CPA | <i>Controller</i> |
| Treva H. Best, CAP-OM | <i>Senior Executive Assistant</i> |
| Mark Mamantov | <i>Legal Counsel, Bass, Berry & Sims PLC</i> |

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METROPOLITAN
KNOXVILLE
AIRPORT
AUTHORITY

November 15, 2017

**To the Board of Commissioners of the
Metropolitan Knoxville Airport Authority:**

The Comprehensive Annual Financial Report of the Metropolitan Knoxville Airport Authority (the Authority) for the fiscal year ended June 30, 2017, is hereby submitted. The purpose of the report is to present fairly and disclose fully the Authority's financial position and the results of its operations. The report consists of four sections: Introductory, Financial, Statistical and Compliance.

The financial statements were audited by Coulter & Justus, P.C., Certified Public Accountants, and the supplementary information was prepared by the Accounting and Finance Department. This report is published in accordance with the laws and/or regulations of the State of Tennessee. The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and requirements prescribed by the Comptroller of the Treasury, State of Tennessee.

This report consists of management's representations concerning the financial position of the Authority. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, management of the Authority has established a comprehensive internal control framework that has been designed to both protect the Authority's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Authority's financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Because the cost of internal controls should not outweigh their benefits, the Authority's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this report is complete and reliable in all material respects.

The goal of the independent audit is to provide reasonable assurance that the financial statements of the Authority for the years ending June 30, 2017 and 2016, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and any significant estimates made by management and evaluating the overall financial statements presentation. The independent auditors concluded based upon their audit, that there was a reasonable basis for rendering an unmodified opinion and that the Authority's financial statements for the years ended June 30, 2017 and 2016, are in conformity with GAAP. The independent auditors' report is the first component of the financial section of this report.

The independent audit of the financial statements is part of the broader mandated provisions of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, relative to federal financial awards received from the U.S. Government. It is also in conformity with the provisions of the September 2000 Audit Compliance and Reporting Guide for Public Agencies relative to the collection and use of Passenger Facility Charges.

The standards governing these provisions require the independent auditors not only to report on the fair presentation of the financial statements, but also on the Authority's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state grant awards. See reports of independent auditors presented in the Compliance Section.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of a Management Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A is in the financial section immediately following the report of independent auditors.

REPORTING ENTITY

The Metropolitan Knoxville Airport Authority was established in 1978 under Chapter No. 174, Public Acts of the State of Tennessee, 1969, and pursuant to Resolution No. R-63-78 of the Council of the City of Knoxville, Tennessee. It was organized for and has as its sole purpose the ownership, management, operation and maintenance of McGhee Tyson Airport and other airports, auxiliary fields and other properties, either acquired by or placed under the control of the Authority as outlined in Chapter 174. The Authority currently controls two airports: McGhee Tyson Airport and Knoxville Downtown Island Airport.

The Authority is a component unit of the City of Knoxville, governed by a nine-member Board of Commissioners appointed by the Mayor of the City of Knoxville. Each Commissioner is appointed for a seven-year term and must be confirmed by the Knoxville City Council. Since the Authority was established, it has been financially self-sufficient, with no local tax support.

The Board employs a President, who is the chief administrative and executive officer of the Authority. The President manages the airports under the Authority's control with a staff of 153 full-time equivalent employees. The staff is responsible for the day-to-day financial, administration, operational and personnel matters pertaining to the airports and the contractual arrangements with various aviation businesses.

An annual operating budget is prepared and approved by the Airport Authority's Board of Commissioners. All appropriations for operating expenditures lapse at the end of the fiscal year and must be reappropriated for the following year. Separate accounts are maintained for major capital projects, which are closed when the asset is placed in service. Since there is no legal requirement to report on the budgetary basis, no budget information is presented in the accompanying financial statements.

McGhee Tyson Airport

Located just 15 miles from downtown Knoxville, McGhee Tyson Airport lies in Blount County on 2,731 acres in the rolling foothills of the Great Smoky Mountains and provides employment for more than 2,800 people. McGhee Tyson has two parallel 9,000-foot runways, one is currently under construction, and is served by most major U.S. airlines and/or their regional partner. These airlines provide numerous non-stop flights to destinations throughout the United States for approximately 1.8 million passengers each year. The airport is also home to the Tennessee Air National Guard's 134th Air Refueling Wing. McGhee Tyson is classified by the Federal Aviation Administration (FAA) as a small air traffic hub airport.

Knoxville Downtown Island Airport

Knoxville Downtown Island Airport is a general aviation airport located less than three miles from downtown Knoxville and is base for more than one hundred and forty private and corporate aircrafts. The airport has a 3,500-foot runway with a published localizer-only approach.

ECONOMIC CONDITIONS AND OUTLOOK

The primary service area for McGhee Tyson Airport is the City of Knoxville and its Metropolitan Statistical Area (MSA), which comprises the heart of “Tennessee's Resource Valley,” a 16 county area that makes up Middle East Tennessee. According to the Bureau of the Census, in 2016 the population of Knox County was 456,132 and the population for the City of Knoxville was 186,239. The estimated 2016 population for the Knoxville MSA was 868,546.

In addition, a broader regional market is defined as the Tennessee, Kentucky, Virginia, North Carolina, South Carolina and Georgia counties lying within 100 miles of McGhee Tyson Airport, which is the largest airport in the region. Approximately three million people reside in these 76 counties.

The Knoxville MSA witnessed a decrease from 5.0 to 4.7 percent in unemployment in 2016 as compared to 2015, while the State of Tennessee saw a decrease from 5.8 to 5.1 percent. On a national level, the unemployment rate decreased from 5.0 to 4.9 percent.

According to an economic report prepared by the Boyd Center for Business and Economic Research, Haslam College of Business, University of Tennessee, the Tennessee economy is continuing to show signs of growth. Moderate growth is expected to continue through 2017 and throughout 2018. During 2016, employment firmed up as nonfarm employment increased by 2.4 percent and manufacturing employment increased 2.7 percent. Nominal personal income in Tennessee grew by 4.5 percent last year and current predictions call for continuing improvement of 4.8 percent for the year. The unemployment rate will continue to decline as the average is expected to be 4.8 percent for 2017 and 4.6 percent for 2018.

Knox County is the principal Gateway to the Great Smoky Mountains National Park which is the country's most visited national park. Between 8 and 10 million adventurers and sightseers visit the park each year. More than one-half of the nation's population lives within 500 miles of the park, which is located half in Tennessee and half in North Carolina. Part of the Appalachian Range, Great Smoky Mountains National Park contains 16 peaks higher than 6,000 feet, the highest being Clingmans Dome.

AIRLINE INFORMATION

As of June 30, 2017, McGhee Tyson Airport's five passenger airlines and/or their regional affiliates offered over 4,000 daily departing seats in 20 nonstop markets. In addition, two cargo airlines linked the airport with three major air cargo hubs. A complete listing of air carriers and destinations is as follows:

Passenger Airlines

Allegiant Air
American Airlines*
Delta Air Lines*
Frontier Airlines
United Airlines*

**some or all service offered through regional airline affiliates shown below*

Regional Airline Affiliates

Air Wisconsin Airlines, Inc./American Airlines
 Commute Air/United Airlines
 Endeavor Air/Delta Air Lines
 Envoy Airlines/American Airlines
 ExpressJet/American Airlines
 ExpressJet/Delta Air Lines
 ExpressJet/United Airlines
 GoJet Airlines/United Airlines
 Mesa Airlines/American Airlines
 Mesa Airlines/United Airlines

Piedmont Airlines/American Airlines
 PSA Airlines Inc./American Airlines
 Republic Airlines/United Airlines
 Shuttle America Airlines/American Airlines
 Skywest Airlines/American Airlines
 Skywest Airlines/Delta Air lines
 Skywest Airlines/United Airlines
 TransStates Airlines/American Airlines
 TransStates Airlines/United Airlines

Cargo Airlines

FedEx, Inc.
 UPS Airlines, Inc.

Passenger Airline Destinations (as of June 30, 2017)

Atlanta, Baltimore/Washington, Charlotte, Chicago-O'Hare, Dallas/Fort Worth, Denver, Destin/Fort Walton Beach, Detroit, Fort Lauderdale, Houston, Las Vegas, Minneapolis/St. Paul, Newark, New York-LaGuardia, Orlando-Sanford, Philadelphia, Punta Gorda/SW Florida, St. Petersburg/Tampa Bay, Washington-Dulles, and Washington-National

Cargo Airline Destinations

Indianapolis, Louisville and Memphis

Airline Activity

McGhee Tyson Airport's five passenger airlines and/or their regional affiliates operated over 120 daily (arrivals and departures) flights and served 1,909,623 passengers in FY2017, an increase of 6.7 percent when compared to FY2016. Available airlines seats increased 9.8 percent during the year. The FY2017 airport load factor (percentage of airline seats filled) was 79 percent when compared to FY2016.

85,517,097 pounds of freight and mail moved through the airport during FY2017, an increase of 10 percent compared to the previous year.

FINANCIAL INFORMATION

Long-term Financial Planning

The current Airport Master Plan for McGhee Tyson Airport was adopted by the Board of Commissioners on November 15, 2006. A Facility Planning Study for the Downtown Island Airport was prepared for the Authority on November 19, 2008, as a guide for future development of that airport.

The Airport Master Plan for McGhee Tyson defines a concept for development of the airport over the course of a 20-year planning period and is prepared in collaboration with Federal and State agencies, local municipalities and interested airport users. The primary objective of the Airport Master Plan is to produce a comprehensive planning guide for the continued development of a safe, efficient and environmentally compatible aviation facility that meets the goals of the Authority. The plan incorporates a financial model that evaluates the financial impact of the capital projects identified for the 20-year planning horizon, from 2005 through 2024.

The Authority prepares an annual operating and capital budget. The capital improvement program included in the budget identifies funding sources for capital projects for planning horizons of 0-5 years, 6-10 years and 11-20 years.

The Authority has a five year Airport Lease and Use Agreement with the airlines that serve McGhee Tyson Airport. The current agreement became effective on July 1, 2013, and expires on June 30, 2018. The Airport Lease and Use Agreement with the signatory airlines is a hybrid agreement. Airfield costs are recovered using the residual method. The Authority recovers the airfield cost by charging commercial aircraft a landing fee and general aviation aircraft a fuel flowage fee. The military pays a joint use fee for their share of the airfield costs. Airline terminal rents are calculated using a compensatory method. The terminal costs are calculated by adding the operating and maintenance cost and the capital expense associated with the terminal complex and allocating the cost to the tenants. Passenger facility charge revenue is applied to the terminal debt service to fund the eligible portions of the terminal capital expense. The applicable terminal rent is then calculated by dividing the total remaining cost by the total usable terminal square footage. The Agreement provides for a mid-year adjustment, if projections vary by more than ten percent, and a year-end settlement. If airline rentals, fees and charges paid during the fiscal year are more than required, the excess will be issued as a credit to the airlines. If they are less, the airlines will be invoiced the deficiency.

Relevant Financial Policies

Financial policies for the operation of the two airports are detailed in the Authority's by-laws. The Authority also adopted a comprehensive set of financial policies in an effort to standardize the issuance and management of debt and provide additional guidance on cash reserves and capital improvements on April 18, 2001.

Debt is to be used only to finance capital projects and equipment, except in case of emergency. The Authority has no commitments to issue any additional debt within the next fiscal year.

Cash reserves are intended to protect the Authority from unforeseen increases in expenditures or reductions in revenues, or both. Reserves are also to be used to minimize borrowings, provide funding to match grants from other entities, provide liquidity to fund operating expenses and used to generate interest income for the Authority. The Authority will maintain cash reserves at a minimum amount equal to normal cash requirements for operations and capital projects plus \$10,000,000 or the outstanding minimum annual debt service on all existing debt, whichever is greater. The Authority currently holds approximately \$53,888,000 in unrestricted cash and investments. The Authority is building up the cash balance above the minimum required to advance fund future capital projects rather than using debt and/or provide additional security in the case of an economic downturn or financial emergency.

The Authority actively seeks grants or other contributions to offset capital costs and minimize borrowing for projects that are consistent with the Authority's Capital Improvement Plan.

The Authority believes its prospects for the future are excellent.

MAJOR INITIATIVES

Current Year Projects

The Airport Authority has primarily been focused on the Airfield Modernization Program this year. The Airfield Modernization program is a multi-year program to improve the McGhee Tyson Airport runway and taxiway systems at an estimated cost of \$129,500,000 funded primarily with Federal and State grant funds. A construction contract for \$22,272,788 was awarded to Eutaw Construction Co. in FYE June 30, 2017 for Phase II of the Runway 5L/23R reconstruction. Another contract for \$24,207,280 was awarded to The Harper Company in FYE June 30, 2018 for Phase III of the project. CHA Consulting was awarded a contract for \$2,784,155 for construction administration on the runway project in FYE June 30, 2018. A portion of the contracts are to be funded 100 percent by the Tennessee Air National Guard. The remaining portions will be funded 90 percent with Federal grant funds, 5 percent with State grant funds and 5 percent Airport Authority funds.

The Airport Authority constructed a \$2,018,000 air cargo and ground support equipment (GSE) maintenance building that is leased to Delta Air Lines, Inc. The project was funded with a combination of state grant funds and Airport Authority funds.

Future Year Projects

Several major projects are in the planning stages for McGhee Tyson and Knoxville Downtown Island Airports for the next fiscal year:

At McGhee Tyson Airport, the installation of six new passenger boarding bridges is planned in FYE June 30, 2018. The installation of six additional passenger boarding bridges is planned in FYE June 30, 2019. This project will result in the replacement of the 10 existing bridges and the addition of 2 new bridges so all 12 gates at the terminal building will be equipped with new passenger boarding bridges. The cost is approximately \$9,000,000 and will be funded 100 percent with Airport Authority funds. The replacement of the flight information display systems (FIDs) at the 12 gates in the terminal is also planned. This project also includes new paging stations, boarding pass readers, baggage information display units and digital signing throughout the airport. The cost is approximately \$1,200,000 and will be funded 100 percent with Airport Authority funds.

At the Knoxville Downtown Island Airport, a \$2,284,346 construction contract was awarded to Wilson Construction Group in FYE June 30, 2015 to build a taxi lane, apron and a new 24 unit T-hangar building. The construction project is still in progress. The project is being funded with a combination of Federal grant funds, State grant funds and 5 percent Airport Authority funds.

The master plans for both airports are in the process of being updated. McGhee Tyson Airport's master plan will be funded 100 percent with Airport Authority funds. Knoxville Downtown Island Airport is being funded 95 percent State grant funds and 5 percent Airport Authority funds.

The Airport Authority has also joined with the Community Reuse Organization of East Tennessee, the Heritage Center and the Horizon Center to form a partnership for planning that could lead to the eventual construction of a new general aviation airport in Oak Ridge. The Airport Authority has entered into an agreement with Michael Baker Jr., Inc. for preliminary planning and coordination that will set the course for the future of this project.

MAJOR AIRPORT CAPITAL IMPROVEMENTS COMPLETED

| Year Completed | Description | Cost |
|----------------|---|----------------|
| 1989 | Parking Garage Phase I (775 spaces) | \$5.7 million |
| 1991 | Air Cargo Complex (FedEx and UPS) | \$12 million |
| 1993 | Runway 5R/23L 3,000 foot extension | \$14 million |
| 1995 | Parking Garage Phase II (619 spaces) | \$3.2 million |
| 1998 | Parking Garage Phase III (1,417 spaces) | \$8.2 million |
| 2000 | Passenger Terminal Building Renovation and Expansion | \$72 million |
| 2000 | Express Jet Maintenance Facility | \$13.7 million |
| 2002 | Delta Air Lines Maintenance Facility | \$8.5 million |
| 2008 | Airport Rescue and Fire Fighting Facility | \$11.6 million |
| 2009 | West Aviation Area | \$53 million |
| 2010 | Taxiway B Reconstruction | \$5.4 million |
| 2013 | Airfield Maintenance Complex | \$18.7 million |
| 2015 | Land acquisition in Runway 23R Runway Protection Zone | \$6.1 million |
| 2016 | Aircraft Storage Hangar for Cirrus Design Corp. | \$2.3 million |
| 2017 | Air Cargo Building (Delta) | \$2.0 million |

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Metropolitan Knoxville Airport Authority for its comprehensive annual financial report for the fiscal year ended June 30, 2016. This was the twenty-fourth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

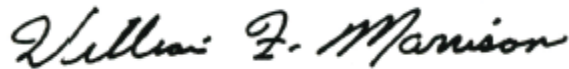
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of this report could not have been accomplished without the professional assistance of the entire Finance and Accounting staff and the cooperation of each department within the Knoxville Metropolitan Airport Authority. We also extend our appreciation to the staff of Coulter & Justus, P.C. for their technical assistance and guidance in the preparation of this report.

We would also like to thank the individual members of the Board of Commissioners of Metropolitan Airport Authority for their interest, support, and leadership in planning and conducting the financial operations of the Authority in a responsible and progressive manner.

Respectfully submitted,



Bill Marrison, A.A.E.
President



Michael R. Bachman, A.A.E., CPA
Vice President, Finance & Administration



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Metropolitan Knoxville Airport Authority
Tennessee**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO



DESTINATIONS

Allegiant Air

Fort Lauderdale
Orlando-Sanford
St. Petersburg/Tampa Bay
Punta Gorda/SW Florida
Baltimore/Washington
Destin/Fort Walton
Las Vegas
Newark

American/American Eagle Airlines

Chicago-O'Hare
Dallas/Fort Worth
Charlotte
Philadelphia
Washington-National

Delta/Delta Connection

Atlanta
Detroit
Minneapolis/St. Paul
New York-LaGuardia

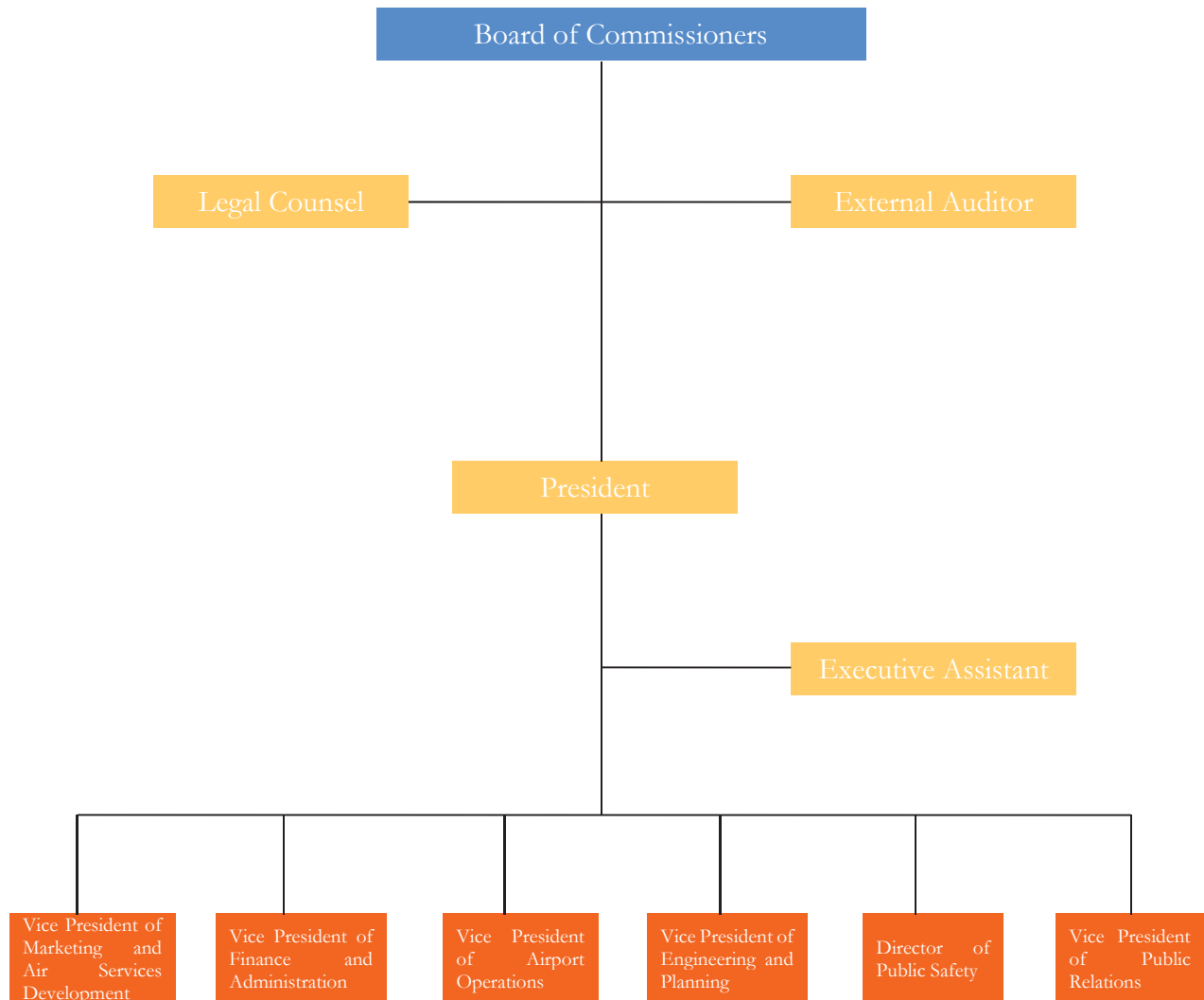
Frontier

Denver

United/United Express

Chicago-O'Hare
Denver
Washington-Dulles
Houston
Newark

ORGANIZATIONAL CHART



FINANCIAL SECTION

This section contains the following subsections:

Report of independent auditors

Management's discussion and analysis

Financial statements



Report of Independent Auditors

Board of Commissioners
Metropolitan Knoxville Airport Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Metropolitan Knoxville Airport Authority (a component unit of the City of Knoxville, Tennessee) (the "Authority") as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively compromise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Metropolitan Knoxville Airport Authority as of June 30, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Commissioners
Metropolitan Knoxville Airport Authority

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Authority and do not purport to, and do not present fairly the financial position of the City of Knoxville, Tennessee as of June 30, 2017 and 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 21 through 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section, Schedules of Long-Term Debt Principal and Interest Requirements and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, State Financial Assistance and Passenger Facility Charges Collected and Expended is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and is also not a required part of the financial statements.

Board of Commissioners
Metropolitan Knoxville Airport Authority

Other Matters (*continued*)

The Schedule of Expenditures of Federal Awards, State Financial Assistance and Passenger Facility Charges Collected and Expended and the Schedules of Long-Term Debt Principal and Interest Requirements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Coulter & Justus, P.C.

November 15, 2017
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Metropolitan Knoxville Airport Authority's financial performance provides an overview of the financial activities of the McGhee Tyson Airport and the Knoxville Downtown Island Airport for the fiscal year ended June 30, 2017. Following this MD&A are the basic financial statements of the Authority together with the notes thereto.

Airport activities highlights

In conjunction with the continuing economic growth experienced in the overall economy, the major activity indicators at McGhee Tyson Airport increased during calendar year 2016.

The details of major airport indicators for the calendar years 2014-2016 are as follows:

| | 2016 | 2015 | 2014 |
|--------------------------------------|------------|------------|------------|
| Enplanements | 916,583 | 892,666 | 871,964 |
| % (decrease) increase | 2.68% | 2.37% | 1.55% |
| Aircraft operations | 96,214 | 95,549 | 100,421 |
| % (decrease) increase | .70% | (4.85)% | (0.42)% |
| Landed weight (thousand pound units) | 1,343,989 | 1,262,678 | 1,277,907 |
| % (decrease) increase | 6.44% | (1.19)% | 0.08% |
| Cargo (pounds) | 85,517,097 | 77,435,695 | 74,114,103 |
| % (decrease) increase | 10.44% | 4.48% | (11.23)% |

By mid-2017, McGhee Tyson Airport offered East Tennessee travelers 20 nonstop airline destinations flown by five airlines and their affiliates. Few other communities of this size provide such a broad range of nonstop cities.

Financial highlights

The Airport Authority is treated as a component unit of the City of Knoxville, Tennessee. The Authority issues a Comprehensive Annual Financial Report, which is incorporated in the City of Knoxville's Comprehensive Annual Financial Report. The financial statements following this MD&A are comprised of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, the Statements of Cash Flows and the accompanying Notes to the Financial Statements. The financial information herein is presented at a summarized level for analysis purposes only. See Note 1 to the financial statements for significant accounting policies related to the Authority.

2016-2017:

The Airport Authority's operating revenues increased by 5.05% from FY2016 to FY2017 due to the following:

Aviation and terminal area revenues increased .46% and 6.51%, respectively, due to increases in landing fees charged to airlines, a 13.54% increase in rental car revenue and a 3.5% increase in parking revenue received from passengers leading to improved revenues in the terminal area. Air cargo and other property revenues increased 3.98% primarily due to additional leased areas.

Operating expenses increased 5.63% due to an 11.7% increase in administrative area expenses, a 6.68% increase in terminal area expenses and a 4.90% increase in safety area expenses offset by a 5.28% decrease in aviation expenses and a 4.97% decrease in air cargo and other properties expense. The administrative area expense increases were primarily due to an increase in expenses associated with project costs associated with potential future projects and loan refunding. The terminal area expenses were due to an increase in repair and maintenance expenses and the safety area expenses increased due to increased passenger traffic. The decrease in aviation expenses was primarily due to a decrease in repairs and maintenance and the air cargo and other properties expense was primarily due to a decrease in fuel costs.

The Authority realized a 4.6% increase in interest expense due to an increase in current interest rates. Changes in the projected interest rate environment resulted in \$923,279 of income from the change in fair value of the derivative instrument associated with the Series V-A-1 bonds.

There was an increase in net position from \$151,556,882 at the beginning of FY2017 to \$184,085,854 at the end of the fiscal year. The change in net position is an indication of whether the overall fiscal condition of the Authority has improved or worsened during the year. We feel the overall fiscal condition of the Authority remains strong.

2015-2016:

The Airport Authority's operating revenues increased by 0.79% from FY2015 to FY2016 due to the following:

Aviation and terminal area revenues increased 1.90 % and 1.20%, respectively, due to increases in landing fees charged to airlines and a 2.93% increase in parking revenue received from passengers. Air cargo and other property revenues decreased 2.62% due to a decrease in net revenues at the Downtown Island Airport.

Operating expenses increased 2.96% largely due to a 14.25% increase in administrative area expenses. The administrative area expense increases were primarily an increase in employee health insurance cost and expenses associated with expensing planning costs for Oak Ridge Airport.

The Authority realized a 4.50% reduction in interest expense mostly due to decreases of 5.82% in the amount of debt outstanding and 12.32% in the notional amount of the derivative instruments. The lower notional amount also contributed to the \$255,123 of income from the change in fair value of the derivative instrument associated with the Series V-A-1 bonds; this was a decline of 46.80% year-to-year.

There was an increase in net position from \$136,533,414 at the beginning of FY2016 to \$151,556,882 at the end of the fiscal year.

2014-2015:

The Airport Authority's operating revenues increased by 4.43% from FY2014 to FY2015 due to the following:

Aviation and terminal area revenues increased 7.34% and 3.92%, respectively, due to increases in landing fees charged to airlines and a 6.6% increase in the airline leased space rentals and a 15.7% increase in rental car revenue leading to the improved revenues in the terminal area. Air cargo and other property revenues increased 3.18% from increases in rental rates.

Operating expenses increased 4.40% largely due to an 11.5% increase in administrative area expenses. The administrative area expense increases were primarily an increase in employee health insurance cost and one-time expenses associated with expensing planning cost for an inline baggage system that will not be constructed and the Authority's share of the cost of installing a traffic signal at the West Hunt Rd. intersection that will become the property of the City of Alcoa.

The Authority realized an 8.91% reduction in interest expense mostly due to decreases of 5.25% in the amount of debt outstanding and 10.50% in the notional amount of the derivative instruments. The lower notional amount also contributed to the \$479,594 of income from the change in fair value of the derivative instrument associated with the Series V-A-1 bonds; this was a decline of 18.38% year-to-year.

There was an increase in net position from \$128,016,248 at the beginning of FY2015 to \$136,533,414 at the end of the fiscal year.

Summary of revenues, expenses and changes in net position

| | Year ended June 30 | | |
|--|----------------------|----------------------|----------------------|
| | 2017 | 2016 | 2015 |
| Operating revenues | \$ 29,091,286 | \$ 27,692,492 | \$ 27,474,106 |
| Operating expenses | (21,328,731) | (20,191,678) | (19,611,566) |
| Excess before depreciation and other income, net | 7,762,555 | 7,500,814 | 7,862,540 |
| Depreciation and amortization | (9,539,399) | (9,912,070) | (10,717,072) |
| Operating loss | (1,776,844) | (2,411,256) | (2,854,532) |
| Net nonoperating income (expense) | 2,620,125 | 2,599,725 | 1,933,972 |
| Income (loss) before capital contributions | 843,281 | 188,469 | (920,560) |
| Capital contributions | 31,685,691 | 14,834,999 | 9,437,726 |
| Increase in net position | 32,528,972 | 15,023,468 | 8,517,166 |
| Net position at beginning of year | 151,556,882 | 136,533,414 | 128,016,248 |
| Net position at end of year | \$184,085,854 | \$151,556,882 | \$136,533,414 |

Financial summary

| | Year ended June 30 | | |
|--|----------------------|----------------------|----------------------|
| | 2017 | 2016 | 2015 |
| Current assets | \$ 61,853,194 | \$ 61,542,805 | \$ 57,408,962 |
| Restricted assets | 1,924,721 | 2,029,096 | 1,704,693 |
| Capital assets (net) | 192,092,127 | 164,857,876 | 156,777,929 |
| Master plan and other plans (net) | 61,548 | 62,192 | 73,491 |
| Other | 579,343 | 633,229 | 694,259 |
| Deferred outflows – debt refunding | 1,375,000 | – | – |
| Deferred outflows – interest rate swaps | – | 2,388,073 | 2,514,204 |
| Total assets and deferred outflows of resources | \$257,885,933 | \$231,513,271 | \$219,173,538 |
| Current liabilities | \$ 10,213,823 | \$ 9,408,780 | \$ 7,121,261 |
| Long-term debt, less current portion | 62,395,000 | 66,045,000 | 70,635,000 |
| Interest rate swap liabilities – Hedging | – | 2,388,073 | 2,514,204 |
| Interest rate swap liabilities – Investment | 1,191,256 | 2,114,536 | 2,369,659 |
| Total liabilities | 73,800,079 | 79,956,389 | 82,640,124 |
| Net investment in capital assets | 123,577,195 | 91,628,740 | 81,407,805 |
| Restricted net position | 1,924,721 | 2,029,096 | 1,704,693 |
| Unrestricted net position | 58,583,938 | 57,899,046 | 53,420,916 |
| Total net position | 184,085,854 | 151,556,882 | 136,533,414 |
| Total liabilities and net position | \$257,885,933 | \$231,513,271 | \$219,173,538 |

The largest portion of the Authority's net position each year represents its investment in capital assets less the related indebtedness outstanding used to acquire those capital assets. The Authority uses these capital assets to provide services to its passengers and visitors; consequently these assets are not available for future spending.

Although the Authority's investment in its capital assets is reported net of related debt, the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay liabilities. Another portion of net position is restricted and primarily represents Passenger Facility Charges ("PFC") that are restricted by Federal regulations. The remaining portion of net position is unrestricted and may be used to meet any of the Authority's ongoing obligations.

Airline signatory rates and charges

The Authority and certain airlines negotiated an agreement effective July 1, 2013, for five years, which established how those airlines would be assessed annual rates and charged for their use of the airport.

Terminal rates and landing fees are estimated at the beginning of the year with an annual year-end settlement calculation. The rates and charges for the signatory airlines were as follows:

| | Year ended June 30 | | |
|------------------------------------|--------------------|----------|----------|
| | 2017 | 2016 | 2015 |
| Landing fees (per 1,000 lbs. MCLW) | \$3.23 | \$3.50 | \$3.43 |
| Terminal rates (per square foot) | \$42.012 | \$38.757 | \$38.621 |
| Loading bridge rate per bridge | \$45,176 | \$45,436 | \$51,378 |
| Apron charge per gate | \$82,788 | \$81,934 | \$77,624 |

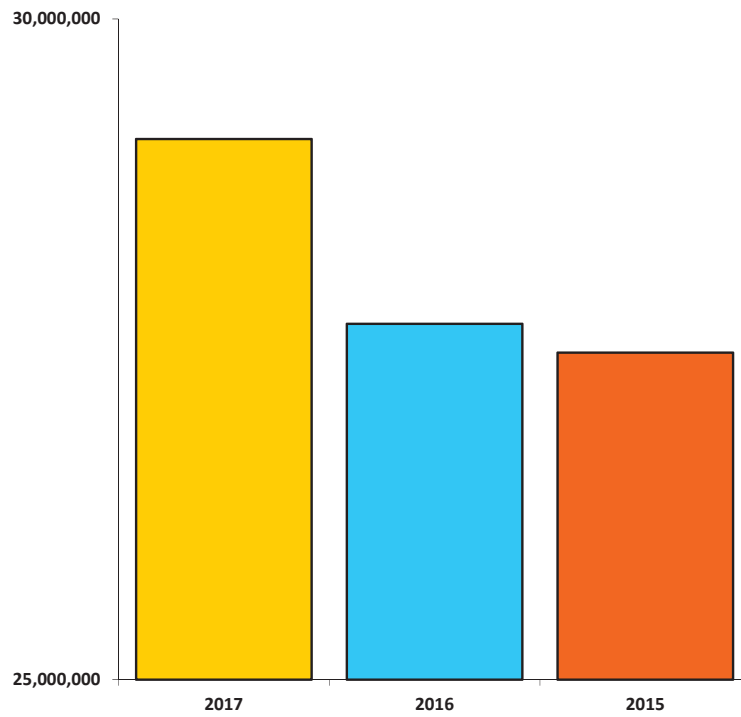
Financial details

Revenues

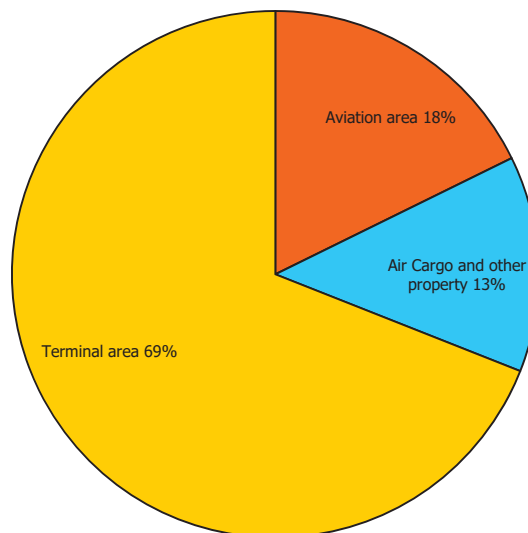
The following schedule presents a summary of operating revenues:

| | Year ended June 30 | | |
|---|----------------------|----------------------|----------------------|
| | 2017 | 2016 | 2015 |
| Operating revenues: | | | |
| Aviation area | \$ 5,157,606 | \$ 5,133,877 | \$ 5,038,282 |
| Terminal area | 20,075,555 | 18,848,009 | 18,625,307 |
| Air cargo and other properties | 3,858,125 | 3,710,606 | 3,810,517 |
| Total operating revenues | 29,091,286 | 27,692,492 | 27,474,106 |
| Other income (deductions) and capital contributions: | | | |
| Passenger facility charges | 3,767,376 | 3,412,227 | 3,355,133 |
| Interest income | 373,275 | 298,709 | 211,220 |
| Change in fair value of investment interest rate swap | 923,279 | 255,123 | 479,594 |
| Other nonoperating, net | (234,762) | 745,585 | 99,553 |
| Capital contributions - grant receipts from governmental agencies | 31,685,691 | 14,834,999 | 9,437,726 |
| Net other income and capital contributions | 36,514,859 | 19,546,643 | 13,583,226 |
| Total revenues and other income | \$ 65,606,145 | \$ 47,239,135 | \$ 41,057,332 |

The following chart shows the operating revenues for the past three fiscal years.



The sources and the percentage of operating revenue for fiscal year ended June 30, 2017 are shown below.

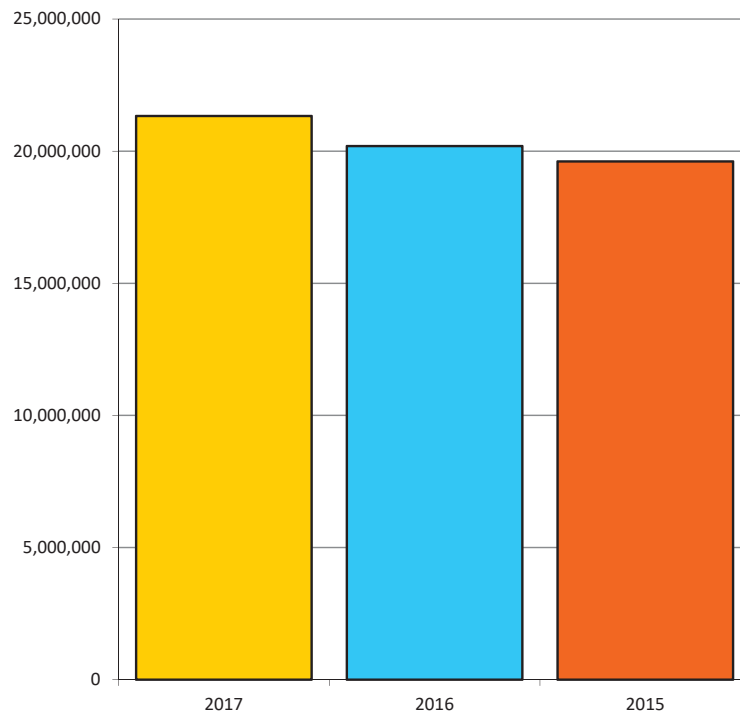


Expenses

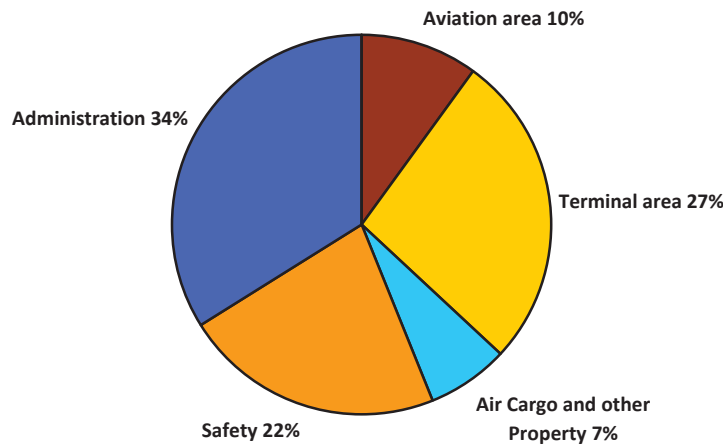
The following schedule presents a summary of operating expenses for the fiscal years ended June 30, 2017, June 30, 2016, and June 30, 2015:

| | Year ended June 30 | | |
|---------------------------------|---------------------|---------------------|---------------------|
| | 2017 | 2016 | 2015 |
| Operating expenses: | | | |
| Aviation area | \$ 2,203,523 | \$ 2,326,391 | \$ 2,241,790 |
| Terminal area | 5,874,317 | 5,506,569 | 5,579,811 |
| Air cargo and other properties | 1,453,788 | 1,529,873 | 1,621,939 |
| Safety | 4,609,726 | 4,394,476 | 4,536,099 |
| Administration | 7,187,377 | 6,434,369 | 5,631,927 |
| Total operating expenses | 21,328,731 | 20,191,678 | 19,611,566 |
| Depreciation and amortization | 9,539,399 | 9,912,070 | 10,717,072 |
| Interest expense | 2,209,043 | 2,111,919 | 2,211,528 |
| Total expenses | \$33,077,173 | \$32,215,667 | \$32,540,166 |

The following chart shows the operating expenses for the past three fiscal years.



The sources and the percentage of operating expense for fiscal year ended June 30, 2017, are shown below.



Summary of cash flow activities

| | Year ended June 30 | | |
|---|---------------------|---------------------|---------------------|
| | 2017 | 2016 | 2015 |
| Operating activities | \$ 7,620,830 | \$ 7,940,660 | \$ 7,527,371 |
| Investing activities | 1,464,105 | 356,878 | 2,323,385 |
| Capital and related financing activities | (7,351,180) | (7,347,055) | (5,430,781) |
| Net increase in cash and equivalents | 1,733,755 | 950,483 | 4,419,975 |
| Cash and cash equivalents at beginning of year | 14,496,534 | 13,546,051 | 9,126,076 |
| Cash and cash equivalents at end of year | \$16,230,289 | \$14,496,534 | \$13,546,051 |

Financial statements

The Authority's financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board. The Authority is structured as a single enterprise fund with revenue recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and (except land and construction in progress) are depreciated over their useful lives. Amounts are restricted for debt service and, where applicable, for construction purposes. See the notes to the financial statements for a summary of the Authority's significant accounting policies.

Capital acquisitions and construction activities

During fiscal year ending June 30, 2017 the Authority expended \$36,989,674 on capital activities. This included land acquisitions and major construction projects.

During fiscal year ended June 30, 2017, completed projects totaling \$3,657,155 were closed from construction-in-progress to their respective capital accounts.

Property and equipment acquisitions are capitalized at cost. Acquisitions are funded using a variety of financing techniques, including federal grants, state grants, debt issuances, and airport revenues. Please see Note 4 in the notes to the financial statements for more detailed information on capital asset activity.

Long-term debt

The outstanding long-term debt of the Authority is \$67,520,000 including current maturities of \$5,125,000 at June 30, 2017. This debt consists of Local Government Public Improvement Revenue Bonds and notes payable.

A portion of the V-A-1 Bonds totaling \$16,950,000 is subject to an interest rate swap agreement. Based on the swap agreement, the Authority owes interest at an effective fixed rate of 3.2% on the Series V-A-1 Bonds. The variable rate was .92% on the remaining portion of \$39,570,000 on the V-A-1 Bonds at June 30, 2017. Maturities range from 2017 to 2028. The principal and interest payable on the debt is paid from airport revenues.

The latest series of Local Government Public Improvement Revenue Bonds issued by the Authority was the Series V-A-1 issued in December, 2008. The bonds are secured by and payable solely from the net revenues derived from the operations of the airport by the Authority as defined in the Master Plan Resolution. On January 12, 2017 Moody's Rating Committee affirmed a rating of Baa1 for bonds issued by the Authority and S&P affirmed a rating of A- on November 21, 2016. Detailed information on long-term debt activity can be found in Note 5 of the notes to the financial statements.

The Authority's most recent issuance of debt was the Airport Revenue Refunding Note, Series 2017A, in the amount of \$11,000,000 in May 2017. The Series 2017A Note was issued to refund the Authority's Series II-D-1 Bonds, to terminate the associated interest rate swap agreement and to pay certain costs of issuance relating to the Note. The refunding did not extend the maturity date of the bonds but reduced the total principal and interest due during the remaining term, 2017 to 2026, by approximately \$428,000.

Passenger facility charges

On October 6, 1993, the Metropolitan Knoxville Airport Authority received approval from the Federal Aviation Administration (FAA) to collect a \$3.00 PFC on each passenger enplaning at McGhee Tyson Airport. On September 16, 2003, the FAA approved an increase in the Authority's PFC rate to \$4.50 per enplaning passenger. The FAA determined that the earliest effective date for the new rate was October 1, 2003. The collection authority has been extended to September 1, 2023. As of June 30, 2017, the Authority had collected \$65,853,489 of PFC revenue and expended \$65,154,924 on approved projects. The FAA has authorized \$103,771,921 PFC collection by the Airport Authority as of June 30, 2017.

Request for information

The financial report is designed to provide a general overview of the Authority's finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Vice President of Finance and Administration or the Controller, Metropolitan Knoxville Airport Authority, P. O. Box 15600, Knoxville, TN 37901 or by email to Bachman@tys.org or to nancy.white@tys.org.

Respectfully submitted,



Michael R. Bachman, A.A.E., CPA
Vice President, Finance & Administration



Nancy White, CPA
Controller

STATEMENTS OF NET POSITION

| | June 30 | |
|--|-----------------------|-----------------------|
| | 2017 | 2016 |
| Assets | | |
| Unrestricted current assets: | | |
| Cash and cash equivalents | \$ 14,985,568 | \$ 12,937,438 |
| Investments | 38,902,166 | 39,998,469 |
| Receivables: | | |
| Trade | 1,058,256 | 537,379 |
| Government agencies | 6,185,775 | 7,554,511 |
| Interest | 58,860 | 53,387 |
| Prepaid expenses and other current assets | 662,569 | 461,621 |
| Total unrestricted current assets | 61,853,194 | 61,542,805 |
| Restricted current assets: | | |
| Cash and cash equivalents | 1,244,721 | 1,559,096 |
| Receivables for passenger facility charges | 680,000 | 470,000 |
| Total restricted current assets | 1,924,721 | 2,029,096 |
| Total current assets | 63,777,915 | 63,571,901 |
| Noncurrent assets: | | |
| Capital assets, net of accumulated depreciation | 192,092,127 | 164,857,876 |
| Master plans and other plans, net of accumulated amortization | 61,548 | 62,192 |
| Other | 579,343 | 633,229 |
| Total noncurrent assets | 192,733,018 | 165,553,297 |
| Total assets | 256,510,933 | 229,125,198 |
| Deferred outflows of resources | | |
| Deferred charge on debt refunding | 1,375,000 | - |
| Accumulated decrease in fair value of hedging interest rate swap | - | 2,388,073 |
| Total assets and deferred outflows of resources | \$ 257,885,933 | \$ 231,513,271 |

STATEMENTS OF NET POSITION *(continued)*

| | June 30 | |
|---|-----------------------|-----------------------|
| | 2017 | 2016 |
| Liabilities and net position | | |
| Current liabilities: | | |
| Accounts payable - non-construction | \$ 1,301,435 | \$ 815,322 |
| Accounts payable - construction | 2,431,480 | 2,656,328 |
| Accrued payroll and other expenses | 1,313,231 | 1,273,130 |
| Accrued interest | 42,677 | 74,000 |
| Current portion of long-term debt | 5,125,000 | 4,590,000 |
| Total current liabilities | 10,213,823 | 9,408,780 |
| Long-term liabilities: | | |
| Long-term debt, less current portion | 62,395,000 | 66,045,000 |
| Interest rate swap liabilities: | | |
| Hedging | - | 2,388,073 |
| Investment | 1,191,256 | 2,114,536 |
| Total long-term liabilities | 63,586,256 | 70,547,609 |
| Total liabilities | 73,800,079 | 79,956,389 |
| Net position: | | |
| Net investment in capital assets | 123,577,195 | 91,628,740 |
| Restricted - expendable: | | |
| Passenger facility charges | 1,378,566 | 1,514,167 |
| Law enforcement | 546,155 | 514,929 |
| Unrestricted | 58,583,938 | 57,899,046 |
| Total net position | 184,085,854 | 151,556,882 |
| Total liabilities and net position | \$ 257,885,933 | \$ 231,513,271 |

See accompanying Notes to Financial Statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

| | Year ended June 30 | |
|--|-----------------------|-----------------------|
| | 2017 | 2016 |
| Operating revenues: | | |
| Aviation area | \$ 5,157,606 | \$ 5,133,877 |
| Terminal area | 20,075,555 | 18,848,009 |
| Air cargo and other properties | 3,858,125 | 3,710,606 |
| Total operating revenues | 29,091,286 | 27,692,492 |
| Operating expenses: | | |
| Aviation area | 2,203,523 | 2,326,391 |
| Terminal area | 5,874,317 | 5,506,569 |
| Air cargo and other properties | 1,453,788 | 1,529,873 |
| General area: | | |
| Safety | 4,609,726 | 4,394,476 |
| Administration | 7,187,377 | 6,434,369 |
| Total operating expenses | 21,328,731 | 20,191,678 |
| Operating revenues in excess of operating expenses before depreciation and amortization | 7,762,555 | 7,500,814 |
| Depreciation and amortization | (9,539,399) | (9,912,070) |
| Operating loss | (1,776,844) | (2,411,256) |
| Nonoperating income (expense): | | |
| Passenger facility charges | 3,767,376 | 3,412,227 |
| Interest income | 373,275 | 298,709 |
| Change in fair value of investment interest rate swap | 923,279 | 255,123 |
| Interest expense | (2,209,043) | (2,111,919) |
| Other nonoperating, net | (234,762) | 745,585 |
| Net nonoperating income | 2,620,125 | 2,599,725 |
| Income before capital contributions | 843,281 | 188,469 |
| Capital contributions | 31,685,691 | 14,834,999 |
| Increase in net position | 32,528,972 | 15,023,468 |
| Net position at beginning of year | 151,556,882 | 136,533,414 |
| Net position at end of year | \$ 184,085,854 | \$ 151,556,882 |

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

| | Year ended June 30 | |
|---|----------------------|----------------------|
| | 2017 | 2016 |
| Operating activities | | |
| Operating cash received from customers | \$ 28,570,409 | \$ 28,240,222 |
| Cash payments to suppliers of goods and services | (8,504,500) | (8,431,577) |
| Cash payments to employees for services | (12,445,079) | (11,867,985) |
| Net cash provided by operating activities | 7,620,830 | 7,940,660 |
| Investing activities | | |
| Interest received | 367,802 | 283,417 |
| Purchases of investments | (14,000,000) | (46,981,222) |
| Proceeds from maturities of investments | 15,096,303 | 47,054,683 |
| Net cash provided by investing activities | 1,464,105 | 356,878 |
| Capital and related financing activities | | |
| Interest paid | (2,240,366) | (2,121,264) |
| Note Proceeds | 11,000,000 | - |
| Payment for redemption of refunded bonds | (9,525,000) | - |
| Repayments on bonds | (4,590,000) | (4,365,000) |
| Purchases of capital assets | (36,989,674) | (15,775,548) |
| Receipts of passenger facility charges | 3,557,376 | 3,337,227 |
| Grant receipts from governmental agencies and other income (expense) | 32,811,484 | 11,577,530 |
| Termination of hedging interest rate swap | (1,375,000) | - |
| Net cash used in capital and related financing activities | (7,351,180) | (7,347,055) |
| Net increase in cash and cash equivalents | 1,733,755 | 950,483 |
| Cash and cash equivalents at beginning of year | 14,496,534 | 13,546,051 |
| Cash and cash equivalents at end of year | \$ 16,230,289 | \$ 14,496,534 |
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating loss | \$ (1,776,844) | \$ (2,411,256) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 9,539,399 | 9,912,070 |
| Changes in operating assets and liabilities: | | |
| Receivables-trade | (520,877) | 547,730 |
| Prepaid expenses and other assets | (147,062) | 32,965 |
| Accounts payable—non-construction | 486,113 | (354,959) |
| Accrued payroll and other expenses | 40,101 | 214,110 |
| Net cash provided by operating activities | \$ 7,620,830 | \$ 7,940,660 |

Continued on next page

STATEMENTS OF CASH FLOWS *(continued)***Noncash and related financing transactions**

Payables related to the purchase of capital assets totaled \$2,431,480 and \$2,656,328 as of June 30, 2017 and 2016, respectively.

Receivables from governmental agencies related to capital contributions total \$6,185,775 and \$7,554,511 as of June 30, 2017 and 2016, respectively. Grant receipts from governmental agencies and other income (expense) also includes other expense of \$234,762 as of June 30, 2017 and other income \$753,128 as of June 30, 2016.

Noncash and related investing transactions

Changes in fair value of investment interest rate swaps totaled \$923,279 and \$255,123 for years ended June 30, 2017 and 2016, respectively.

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

Organization and Reporting Entity

The Metropolitan Knoxville Airport Authority (the “Authority”) is a component unit of the City of Knoxville, Tennessee (the “City”), governed by a nine-member Board of Commissioners appointed by the Mayor of the City and confirmed by members of City Council. A Master Resolution was adopted in 2000 whereby the Authority issues its own revenue obligations.

The reporting entity, as a component unit of the City of Knoxville, Tennessee, includes the accounts of McGhee Tyson Airport and Knoxville Downtown Island Airport. As a component unit, there are no agencies, departments or funds subordinate to the Authority, which might be considered for inclusion in the reporting entity.

The Authority operates under, and pursuant to, the authority granted by the Metropolitan Airport Authority Act of 1969 (Tennessee Code Annotated Section 42-4-101, et seq.).

Basis of Accounting

The Authority reports as a Business Type Activity. Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The Authority’s activities are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net position, revenues and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred. Current assets include cash and amounts convertible to cash during the next normal operating cycle or one year. Current liabilities include those obligations to be liquidated with current assets.

Revenues from airlines, concessions, rental cars and parking are reported as operating revenues. Capital, grants, financing or investing related transactions are reported as nonoperating revenues. All expenses related to operating the Authority are reported as operating expenses. Interest expense and financing costs are reported as nonoperating deductions.

Fiscal Year-End

The Authority operates on a fiscal year ending June 30. All references in these notes refer to the fiscal year-end unless otherwise specified.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS *(continued)*

1. Significant Accounting Policies *(continued)*

Budgets

Under the by-laws of the Authority, management must submit an annual operating budget to the Board of Commissioners for approval. In addition, management must submit to the Board of Commissioners annually a capital-improvements budget covering a period of six years.

The Authority is not required to demonstrate statutory compliance with its annual operating or capital-improvements budget. Accordingly, budgetary data is not included in the financial statements. All budgets are prepared in accordance with bond covenants. Unexpended appropriations lapse at year-end.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, money market accounts and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

The Authority's investments are reported at fair value using quoted market price or the best available estimate thereof. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction with willing parties, other than in a forced or liquidation sale. All investment income, including changes in the fair value of investments, is reported as nonoperating income in the accompanying statements of revenues, expenses and changes in net position.

Amounts Due from Governmental Agencies

Certain expenditures for airport capital improvements are significantly funded through the Airport Improvement Program ("AIP") of the Federal Aviation Administration ("FAA") and the National Guard Bureau, with certain matching funds provided by the State of Tennessee ("State") and the Authority, or from various state allocations or grant programs. Capital funding provided under government grants is considered earned when the related allowable expenditures are incurred and the funds are available.

Restricted Assets

Restricted assets are held to satisfy bond principal and interest sinking fund requirements or are otherwise held for certain capital improvement and certain other restricted expenditures. For expenditures for which both restricted and unrestricted net positions are available, the Authority first applies restricted assets when such expenditures are incurred.

Capital Assets

Capital assets are stated at cost and defined by the Authority as assets with an initial cost greater than \$5,000. Donated capital assets, if any, are reported at acquisition value. Maintenance and repairs are charged to expense as incurred, and renewals and betterments are capitalized. The cost and accumulated depreciation on retired assets are removed from the books and the gain or loss, if any, is reflected in nonoperating activities.

Depreciable capital assets are depreciated using the straight-line method over the following estimated useful lives:

| | |
|-------------------------------------|--------------|
| Land improvements | 5 – 20 years |
| Buildings and building improvements | 5 – 30 years |
| Equipment, furniture and fixtures | 3 – 10 years |

NOTES TO FINANCIAL STATEMENTS *(continued)*

1. Significant Accounting Policies *(continued)*

Master Plans

Master plans are stated at cost. Amortization is computed using the straight-line method over the plans' estimated useful lives of five years.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. The Authority has two items that qualify for reporting in this category. The *deferred charge on debt refunding* results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The *accumulated decrease in fair value of hedging interest rate swap* relates to interest rate swap agreements which are considered to be hedging derivative financial instruments. Changes in the fair market value of hedging derivatives are reported as deferred outflows of resources.

Compensated Absences

Compensated absences are accrued as payable when earned and are cumulative from one fiscal year to the next. The liability is included with accrued payroll in the financial statements. The Authority does not have any long-term liabilities for compensated absences.

Net position

Net position is classified in the following categories:

Net investment in capital assets: Capital assets, net of accumulated depreciation, plus capital-related deferred outflows of resources, less outstanding principal of debt attributable to the acquisition, construction or improvement of those assets.

Restricted:

Nonexpendable – Net position subject to externally imposed stipulations that the Authority maintains them permanently. As of June 30, 2017 and 2016, the Authority does not have nonexpendable net position.

Expendable – Net position on which use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time.

Unrestricted: Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Commissioners or may otherwise be limited by contractual agreements with outside parties.

Operating Revenues and Expenses

Aviation area revenues are those revenues received from the use of the airfield such as landing fees, fuel flowage fees, airfield site leases and a military joint use agreement.

Terminal area revenues are those revenues received from space rentals paid by airlines conducting operations in the terminal and revenues received from public parking, rental car concessions and other businesses operating in the terminal.

NOTES TO FINANCIAL STATEMENTS *(continued)*

1. Significant Accounting Policies *(continued)*

Operating Revenues and Expenses *(continued)*

Air cargo revenues are those revenues received from space leases in the cargo building and the air cargo complex. Revenues from other properties are those revenues received from the hotel lease and nonaviation property leases.

All expenses related to operating the Airport are reported as operating expenses.

Risk Management

The Authority is subject to risks that include personal injury, property damage, employee bodily injury, employee theft, employee medical, public officials and employee conduct and workers' compensation. The Authority has purchased insurance policies that transfer these risks, subject to policy limits. Settlements have not exceeded insurance coverage in any of the past three fiscal years.

Reclassifications

Certain amounts in the prior year have been reclassified to conform with 2017 classifications.

Recently Issued Accounting Pronouncements

In June 2017, the Governmental Accounting Standards Board ("GASB"), issued Statement No. 87, *Leases*. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Statement No. 87 is effective for periods beginning after December 15, 2019. The Authority has elected not to adopt this standard early and has not completed the process of evaluating the impact of these statements on its financial statements.

2. Deposits and Investments

Deposits

Deposits are included in the Authority's financial statements as "cash and cash equivalents" and "restricted cash and cash equivalents." As of June 30, 2017 and 2016, all bank balances in excess of federal insurance limits were covered by the bank collateral pool administered by the Treasurer of the State of Tennessee. Banks participating in the pool report the aggregate balance of their public fund accounts to the State. Collateral to secure these deposits must be pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in aggregate rather than against each individual account. Public fund accounts covered by the pool are considered entirely insured or collateralized. Deposits total \$17,028,319 and \$15,424,649 as of June 30, 2017 and 2016, respectively.

Investments

Statutes authorize the Authority to invest idle funds in obligations of the United States Treasury, its agencies and instrumentalities; Certificates of Deposits; the Local Government Investment Pool, bonds of the state of Tennessee or Knox County; and nonconvertible debt securities of the following issuers: Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and Federal Farm Credit Bank.

NOTES TO FINANCIAL STATEMENTS *(continued)*

2. Deposits and Investments *(continued)*

Investments *(continued)*

The Authority requires debt securities must be rated in the highest category by two nationally recognized rating services. As of June 30, 2017, all Authority's investments in debt securities were rated at least Aaa by Moody's Investor Services or AA+ by Standard & Poor's rating services.

To limit the Authority's exposure to fair value losses arising from changing interest rates, the Authority's investment policy prohibits more than 20% of investments (as defined) to be invested with maturities of greater than two years from the acquisition date. Also, investment maturities may not exceed five years from the acquisition date. Investments with maturities of greater than two years require approval of the finance committee.

As of June 30, 2017, the Authority had the following investments:

| | Weighted Average Maturity (Months) | Fair Value | Interest Rates | Maturity Dates |
|-------------------------------------|---------------------------------------|---------------------|-------------------|-----------------------|
| Federal Loan Mortgage Company | 12.79 | \$24,939,460 | .8%-1.0% | 11/20/17- 11/15/18 |
| Federal Farm Credit Bank | 15.85 | 13,962,706 | .73%- 1.03% | 10/13/17- 9/06/18 |
| Total investments | | <u>\$38,902,166</u> | | |
| Portfolio weighted average maturity | 13.89 | | | |

3. Leases

The Authority, as lessor, leases certain capital assets under operating leases expiring in various years through 2052.

As of June 30, 2017, minimum future base rentals to be received on noncancelable leases are as follows:

| | |
|-----------------------------------|---------------------|
| 2018 | \$ 9,932,557 |
| 2019 | 5,552,721 |
| 2020 | 2,020,669 |
| 2021 | 1,346,450 |
| 2022 | 861,212 |
| Thereafter | <u>13,566,845</u> |
| Total minimum future base rentals | <u>\$33,280,454</u> |

Under the terms of one of these leases, payments in future years increase significantly. The Authority is recognizing income for this lease on a straight-line basis, considering total payments over the lease term. Accordingly, advance rents of approximately \$573,000 and \$627,000 are included in other noncurrent assets in the accompanying statements of net position as of June 30, 2017 and 2016, respectively.

Contingent rentals, which consist primarily of rental car concessions and other similar revenues, amounted to \$2,697,925 in 2017 and \$2,099,014 in 2016.

NOTES TO FINANCIAL STATEMENTS *(continued)*

4. Capital Assets

Capital asset activity, including master plans, for the years ended June 30, 2017 and 2016, is as follows:

| Year ended June 30, 2017 | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|---------------|----------------|-------------------|
| Nondepreciable capital assets: | | | | |
| Land | \$ 37,889,922 | \$ 342,575 | \$ - | \$ 38,232,497 |
| Land easements | 625,903 | - | - | 625,903 |
| Construction in progress | 19,608,181 | 35,386,104 | (3,657,155) | 51,337,130 |
| Total nondepreciable capital assets | 58,124,006 | 35,728,679 | (3,657,155) | 90,195,530 |
| Depreciable capital assets: | | | | |
| Land improvements | 117,514,091 | 57,430 | - | 117,571,521 |
| Buildings and building improvements | 167,985,132 | 3,094,259 | (713,683) | 170,365,708 |
| Equipment, furniture and fixtures | 13,884,247 | 1,556,019 | (446,709) | 14,993,557 |
| Total depreciable capital assets | 299,383,470 | 4,707,708 | (1,160,392) | 302,930,786 |
| Less accumulated depreciation: | | | | |
| Land improvements | (85,959,918) | (2,958,368) | - | (88,918,286) |
| Buildings and building improvements | (97,241,264) | (5,890,515) | 713,683 | (102,418,096) |
| Equipment, furniture and fixtures | (9,448,418) | (669,194) | 419,805 | (9,697,807) |
| Total accumulated depreciation | (192,649,600) | (9,518,077) | 1,133,488 | (201,034,189) |
| Net depreciable capital assets | 106,733,870 | (4,810,369) | (26,904) | 101,896,597 |
| Total capital assets, net of accumulated depreciation | \$ 164,857,876 | \$ 30,918,310 | \$ (3,684,059) | \$ 192,092,127 |
| Other capital assets: | | | | |
| Master plans and other plans | \$ 9,920,216 | \$ 20,678 | \$ - | \$ 9,940,894 |
| Accumulated amortization | (9,858,024) | (21,322) | - | (9,879,346) |
| Net other capital assets | \$ 62,192 | \$ (644) | \$ - | \$ 61,548 |

NOTES TO FINANCIAL STATEMENTS *(continued)*4. Capital Assets *(continued)*

| Year ended June 30, 2016 | Beginning Balance | Increases | Decreases | Ending Balance |
|--|-----------------------|----------------------|------------------------|-----------------------|
| Nondepreciable capital assets: | | | | |
| Land | \$ 37,869,303 | \$ 20,619 | \$ - | \$ 37,889,922 |
| Land easements | 625,903 | - | - | 625,903 |
| Construction in progress | 12,608,958 | 17,873,157 | (10,873,934) | 19,608,181 |
| Total nondepreciable capital assets | 51,104,164 | 17,893,776 | (10,873,934) | 58,124,006 |
| Depreciable capital assets: | | | | |
| Land improvements | 143,505,112 | 5,033,938 | (31,024,959) | 117,514,091 |
| Buildings and building improvements | 165,100,821 | 2,884,311 | - | 167,985,132 |
| Equipment, furniture and fixtures | 11,223,026 | 3,081,021 | (419,800) | 13,884,247 |
| Total depreciable capital assets | 319,828,959 | 10,999,270 | (31,444,759) | 299,383,470 |
| Less accumulated depreciation: | | | | |
| Land improvements | (114,140,020) | (2,836,019) | 31,016,121 | (85,959,918) |
| Buildings and building improvements | (90,762,496) | (6,478,768) | - | (97,241,264) |
| Equipment, furniture and fixtures | (9,252,678) | (585,984) | 390,244 | (9,448,418) |
| Total accumulated depreciation | (214,155,194) | (9,900,771) | 31,406,365 | (192,649,600) |
| Net depreciable capital assets | 105,673,765 | 1,098,499 | (38,394) | 106,733,870 |
| Total capital assets, net of accumulated depreciation | \$ 156,777,929 | \$ 18,992,275 | \$ (10,912,328) | \$ 164,857,876 |
| Other capital assets: | | | | |
| Master plans and other plans | \$ 9,920,216 | \$ - | \$ - | \$ 9,920,216 |
| Accumulated amortization | (9,846,725) | (11,299) | - | (9,858,024) |
| Net other capital assets | \$ 73,491 | \$ (11,299) | \$ - | \$ 62,192 |

The Authority is contractually obligated to expend an additional \$49,200,000 for various projects. Estimated costs to complete construction in progress for these projects total approximately \$100,400,000 as of June 30, 2017. The work will be funded through proceeds from Federal and State grants and other Authority funds.

NOTES TO FINANCIAL STATEMENTS *(continued)*

5. Long-Term Debt

Long-term debt includes the following Airport Revenue Obligations payable from operating revenues for the years ended June 30, 2017 and 2016:

| | Beginning Balance | Additions | Payments | Retirements | Ending Balance |
|---------------------------------|----------------------|--------------|-------------|-------------|---------------------|
| Year ended June 30, 2017 | | | | | |
| Series II-D-1 | \$10,360,000 | \$ - | \$ 835,000 | \$9,525,000 | \$ - |
| Series V-A-1 | 60,275,000 | - | 3,755,000 | - | 56,520,000 |
| Series 2017A | - | 11,000,000 | - | - | 11,000,000 |
| Total long-term portion | 70,635,000 | \$11,000,000 | \$4,590,000 | \$9,525,000 | 67,520,000 |
| Less current portion | 4,590,000 | | | | 5,125,000 |
| Long-term portion | <u>\$66,045,000</u> | | | | <u>\$62,395,000</u> |
| Year ended June 30, 2016 | | | | | |
| Series II-D-1 | \$11,145,000 | \$ - | \$ 785,000 | \$ - | \$10,360,000 |
| Series V-A-1 | 63,855,000 | - | 3,580,000 | - | 60,275,000 |
| Total long-term portion | 75,000,000 | \$ - | \$4,365,000 | \$ - | 70,635,000 |
| Less current portion | 4,365,000 | | | | 4,590,000 |
| Long-term portion | <u>\$70,635,000</u> | | | | <u>\$66,045,000</u> |

During 2000, the Authority's Board of Commissioners adopted a Master Resolution allowing the Authority to issue Airport Revenue Obligations. The Authority has pledged revenues, as defined in the Master Resolution, to repay the long-term debt issued under the Master Resolution for the term of the debt. For the year ended June 30, 2017, debt service on all debt issues was approximately 57% of the pledged revenues.

Under this resolution, the Authority is required to establish certain funds, accounts and subaccounts to deposit funds to be held in trust by the Authority in order to meet the requirements of the resolution. These funds include:

Revenue Fund, including accounts for General Revenue and PFC Revenue into which the Authority is to deposit all such revenues.

Sinking Fund, including a payments account and a debt service reserve account, into which the Authority will deposit funds from the Revenue Fund as needed to pay revenue obligations as they come due.

Renewal and Extension Fund, into which the Authority may deposit any monies or securities held in the Revenue Fund (excluding PFC funds) in excess of 45 days' estimated expenses.

Project Fund, into which proceeds from issuance of revenue obligations will be deposited to fund project costs.

NOTES TO FINANCIAL STATEMENTS *(continued)*

5. Long-Term Debt *(continued)*

Outstanding debt as of June 30, 2017, consists of the following:

Series V-A-1 – \$84,645,000 of Local Government Public Improvement Bonds issued by the Public Building Authority of Sevier County on December 1, 2008, with remaining annual installments ranging from \$3,940,000 in 2018 to \$6,490,000 in 2028. Of the bonds outstanding at June 30, 2017, \$16,950,000 bears interest at a synthetic fixed rate of 3.13%. The remaining \$39,570,000 bears interest at a variable rate (0.92% as of June 30, 2017). Interest is paid monthly.

Series 2017A – \$11,000,000 Airport Revenue Refunding Note on May 25, 2017. The entire balance remains outstanding at June 30, 2017, with remaining annual installments ranging from \$650,000 to \$1,400,000 through June 2026. The note bears interest at a fixed rate of 1.95%. Interest is paid annually.

The Authority issued the Series 2017A note to provide funds to retire outstanding \$9,525,000 of Series II-D-1 bonds and to terminate the interest rate swap agreement associated with the Series II-D-1 bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,375,000. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being amortized through 2026.

In connection with the Series V-A-1 bonds, the Authority has entered into a Reimbursement Agreement with Branch Banking and Trust Company who has issued an irrevocable letter of credit in an amount not to exceed \$85,758,140. This letter of credit expires in November 2018. Costs of maintaining this letter of credit and other administrative fees are included in interest expense.

Derivative Instruments

In order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the Authority entered into an interest rate swap agreement (the swap). The intention of the swap is to effectively change the Authority's variable interest rate on the bonds to a synthetic fixed rate.

The fair value of the interest rate swap has been determined by an independent third-party advisory firm from a model that calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

The terms of the outstanding swap as of June 30, 2017:

| Associated Bond Issues | Effective Date | Fixed Rate Paid | Variable Rate Received | Swap Termination Date |
|---------------------------|-------------------|--------------------|---------------------------|-----------------------------|
| Series V-A-1 | 6/28/2001 | 4.36% | 62.5% of 5 Year LIBOR | 6/1/2021 |

The notional amounts of the swap match principal amounts of the associated debt. Except as discussed under rollover risk, the Authority's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled reductions of the associated bond principal. The notional amounts of the swap were \$16,950,000 and \$20,705,000 as of June 30, 2017 and 2016, respectively.

NOTES TO FINANCIAL STATEMENTS *(continued)*

5. Long-Term Debt *(continued)*

Investment Derivative Instrument Risks

The Authority's swap associated with the Series V-A-1 bond is considered an investment derivative. Accordingly, the \$923,380 decrease in the fair value in fiscal year 2017 is reported as a change in fair value of investment interest rate swap in the nonoperating income portion of the Statements of Revenues, Expenses and Changes in Net Position. The estimated fair value of \$1,191,256 and \$2,114,536 have been reported as a long-term liability at June 30, 2017 and 2016, respectively.

Credit risk: As of June 30, 2017, the Authority's investment derivative is not exposed to credit risk because the swap has a negative fair value and as such has no collateral requirements. However, should interest rates change and the fair value of the swap becomes positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value.

For swap counterparty, Raymond James Financial Products, Inc. was rated Baa2/BBB+ by Moody's and Standard & Poor's, respectively, as of June 30, 2017, with its Credit Support Provider, Deutsche Bank, rated Baa2/A-/A- by Moody's, Standard & Poor's and Fitch, respectively.

Interest rate risk: The Authority is exposed to interest rate risk on this instrument. As the LIBOR decreases, the Authority's net payment on the swap increases.

Rollover risk: The Authority is exposed to rollover risk on the swap associated with the Series V-A-1 bonds, as the termination date (June 1, 2021) does not extend to the maturity date (May 25, 2028) of the associated bonds. Once the swap is terminated, the Authority will not realize the synthetic rate offered by the swap on the underlying bond issues.

Scheduled Debt Service Requirements

As of June 30, 2017, scheduled debt service requirements of all outstanding debt and net swap payments, assuming current interest rates remain the same for their term are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

| Year ending June 30 | Principal | Interest | Interest Rate Swap, net | Total |
|--------------------------------|---------------------|--------------------|------------------------------------|---------------------|
| 2018 | \$ 5,125,000 | \$ 729,073 | \$ 518,537 | \$ 6,372,610 |
| 2019 | 5,350,000 | 669,491 | 394,589 | 6,414,080 |
| 2020 | 5,580,000 | 607,480 | 264,646 | 6,452,126 |
| 2021 | 5,825,000 | 543,076 | 128,268 | 6,496,344 |
| 2022 | 6,190,000 | 475,951 | — | 6,665,951 |
| Thereafter | 39,450,000 | 1,334,624 | — | 40,784,624 |
| Total | \$67,520,000 | \$4,359,695 | \$1,306,040 | \$73,185,735 |

NOTES TO FINANCIAL STATEMENTS *(continued)*

6. Fair Value

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

Debt securities are valued based on the securities' relationship to benchmark quoted prices. Derivative instruments are valued using a market approach that considers benchmark interest rates.

The following table sets forth by level, within the fair value hierarchy, the fair value of the Authority's investments and interest rate swap liabilities as of June 30, 2017:

| | Level 1 | Level 2 | Level 3 | Total |
|------------------------------|---------|---------------|---------|---------------|
| Investments: | | | | |
| Government debt securities | \$ — | \$ 38,902,166 | \$ — | \$ 38,902,166 |
| Interest rate swap liability | \$ — | \$ 1,191,256 | \$ — | \$ 1,191,256 |

The following table sets forth by level, within the fair value hierarchy, the fair value of the Authority's investments and derivative investments as of June 30, 2016:

| | Level 1 | Level 2 | Level 3 | Total |
|------------------------------|---------|---------------|---------|---------------|
| Investments: | | | | |
| Government debt securities | \$ — | \$ 39,998,469 | \$ — | \$ 39,998,469 |
| Interest rate swap liability | \$ — | \$ 4,502,609 | \$ — | \$ 4,502,609 |

7. Deferred Compensation Plan

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and is administered by International City Management Association Retirement Corporation. The plan, available to all Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Employee contributions to the Plan were \$116,370 in 2017 and \$98,900 in 2016. Separate audited financial reports are not available for this plan.

8. Retirement Plan

The Authority provides retirement benefits for all of its full-time employees through a defined contribution plan (Metropolitan Knoxville Airport Authority Plan) which was established and can be amended under the authority of the Board of Commissioners and is administered by International City Management Association Retirement Corporation. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. All full-time employees are eligible to participate from the date of employment.

NOTES TO FINANCIAL STATEMENTS *(continued)*

8. Retirement Plan *(continued)*

The Authority's contributions for each employee (and investment income allocated to the employees' account) are vested after one year of employment. Under the terms of the plan, employer contributions are determined annually by the Board of Commissioners. There are no minimum required employer contributions under the terms of the plan and there is no outstanding employer liability as of June 30, 2017 and 2016. Employee contributions are optional. Employer pension expense totaled \$894,413 in 2017 and \$857,385 in 2016. There were no forfeitures during 2017 and 2016. Separate audited financial reports are not available for this plan.

9. Passenger Facility Charges

Passenger Facility Charges ("PFC") are fees imposed on enplaning passengers by airports to finance eligible airport-related projects that preserve or enhance the safety, security or capacity; reduce noise; or increase air carrier competition. Since September 2003, the air carriers have been collecting a \$4.50 PFC on qualifying passengers at McGhee Tyson Airport on behalf of the Authority. Both the fee and its intended projects must be reviewed and approved by the FAA. PFCs, along with related interest earnings, are recorded as deferred revenues until authorized to use for construction and related debt services payments under FAA approved Application to Use. Once authorized to use, the PFC receipts are recognized and recorded as nonoperating income in the year collected by the air carriers. PFC revenues totaled \$3,767,376 in 2017 and \$3,412,227 in 2016. All PFCs were authorized for use, and no deferred revenues were recorded.

The Authority has received approval to collect \$96,119,066 on currently approved projects through an estimated date of July 2022. Cumulative expenditures to date on these approved PFC projects total \$57,183,337.

As of June 30, 2017 and 2016, the Authority has \$1,378,566 and \$1,514,167, respectively, of PFCs available and authorized for use. This amount is included in restricted net position on the balance sheet (see Note 12).

10. Conduit Debt

The Authority issued \$8,500,000 Metropolitan Knoxville Airport Authority Special Purpose Revenue Bonds on June 18, 2002. The bonds bear interest at 8% and are due in an aggregate principal amount of \$8,500,000 on April 1, 2032. Interest is payable semiannually on each April 1 and October 1.

The bonds were issued pursuant to a lease agreement between the Authority and Northwest Airlines, Inc. (Northwest) dated July 12, 2001, and subsequently amended. Northwest has subsequently been acquired by Delta Air Lines (Delta). The proceeds of the bonds were used for the construction by Northwest of an aircraft maintenance hangar and related facilities to be leased by Northwest from the Authority under the lease agreement. Under the terms of the lease agreement, Delta, formerly Northwest is obligated to pay base rental to a trustee assigned by the Authority in the amount necessary to meet debt service requirements on the bonds as they are due.

NOTES TO FINANCIAL STATEMENTS *(continued)*

10. Conduit Debt (continued)

The Authority has no liability for repayment of these bonds and, accordingly, the bonds are not reported in the Authority's financial statements. Revenues and receipts derived from the lease agreement and a guaranty by Delta, are the only security for the bondholders. The entire amount of the bonds is outstanding at June 30, 2017.

11. Business Concentrations

The Authority is dependent to a large extent on five major airlines and their regional affiliates in that a significant portion of aviation area revenues are generated by these airlines. These airlines accounted for aviation area revenues totaling \$4,859,773 in 2017 and \$4,163,098 in 2016 and maintenance facility rent from a regional affiliate accounted for \$1,099,780 of air cargo revenue in both 2017 and 2016. In addition, a significant portion of terminal area revenue is directly and indirectly generated from four of these airlines' passengers, which accounted for approximately 96% of total passengers in 2017 and 84% in 2016. As of June 30, 2017 and 2016, 92% and 73%, respectively, of trade accounts receivable are due from these major airlines.

NOTES TO FINANCIAL STATEMENTS *(continued)***12. Net Position**

Net position consists of the following as of June 30:

| | 2017 | 2016 |
|---|-----------------------|----------------------|
| Net investment in capital assets | | |
| Noncurrent assets: | | |
| Capital assets, net | \$ 192,092,127 | \$ 164,857,876 |
| Master plans and other plans, net | 61,548 | 62,192 |
| Total noncurrent assets | 192,153,675 | 164,920,068 |
| Deferred outflows - deferred charge on debt refundings | 1,375,000 | - |
| Less related liabilities: | | |
| Accounts payable (for construction) | 2,431,480 | 2,656,328 |
| Long-term debt | 67,520,000 | 70,635,000 |
| Total related liabilities | 69,951,480 | 73,291,328 |
| Net investment in capital assets | <u>\$ 123,577,195</u> | <u>\$ 91,628,740</u> |
| Restricted net position: | | |
| Cash and cash equivalents - passenger facility charges | \$ 698,566 | \$ 1,044,167 |
| Cash and cash equivalents - law enforcement | 546,155 | 514,929 |
| Passenger facility charges receivable | 680,000 | 470,000 |
| Restricted net position | <u>\$ 1,924,721</u> | <u>\$ 2,029,096</u> |
| Unrestricted net position (all other items on statements of net position not reflected above): | | |
| Assets: | | |
| Cash and cash equivalents | \$ 14,985,568 | \$ 12,937,438 |
| Investments | 38,902,166 | 39,998,469 |
| Receivables | 7,302,891 | 8,145,277 |
| Prepaid expenses and other current assets | 662,569 | 461,621 |
| Other long-term assets | 579,343 | 633,229 |
| Total unrestricted assets | 62,432,537 | 62,176,034 |
| Less liabilities: | | |
| Accounts payable (non-construction) | 1,301,435 | 815,322 |
| Accrued payroll and other expenses | 1,313,231 | 1,273,130 |
| Accrued interest | 42,677 | 74,000 |
| Investment interest rate swaps | 1,191,256 | 2,114,536 |
| Total liabilities | 3,848,599 | 4,276,988 |
| Unrestricted net position | <u>\$ 58,583,938</u> | <u>\$ 57,899,046</u> |

NOTES TO FINANCIAL STATEMENTS *(continued)***13. Division Information**

The Metropolitan Knoxville Airport Authority provides services through two divisions - McGhee Tyson Airport and Knoxville Downtown Island Airport. Key financial data as of and for the years ended June 30, 2017 and 2016 for the two divisions is as follows:

| | McGhee Tyson | | Downtown Island | |
|--|-----------------------|-----------------------|------------------------|-----------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Unrestricted current assets | \$ 61,722,326 | \$ 61,391,481 | \$ 130,868 | \$ 151,324 |
| Restricted current assets | 1,924,721 | 2,029,096 | - | - |
| Capital assets, net | 188,676,031 | 163,064,281 | 3,477,644 | 1,855,787 |
| Other assets, net | 573,219 | 627,105 | 6,124 | 6,124 |
| Intercompany receivable | 3,786,922 | 3,317,784 | - | - |
| Deferred outflows | 1,375,000 | 2,388,073 | - | - |
| Total assets and deferred outflows | \$ 258,058,219 | \$ 232,817,820 | \$ 3,614,636 | \$ 2,013,235 |
| Current liabilities | \$ 10,186,909 | \$ 9,347,602 | \$ 26,914 | \$ 61,178 |
| Intercompany payable | - | - | 3,786,922 | 3,317,784 |
| Long-term debt, less current portion | 61,964,791 | 65,614,791 | 430,209 | 430,209 |
| Swap liabilities | 1,182,189 | 4,480,613 | 9,067 | 21,996 |
| Total liabilities | \$ 73,333,889 | \$ 79,443,006 | \$ 4,253,112 | \$ 3,831,167 |
| Net position: | | | | |
| Net investment in capital assets | \$ 120,529,760 | \$ 90,203,162 | \$ 3,047,435 | \$ 1,425,578 |
| Restricted | 1,924,721 | 2,029,096 | - | - |
| Unrestricted | 62,269,849 | 61,142,556 | (3,685,911) | (3,243,510) |
| Total net position (deficit) | \$ 184,724,330 | \$ 153,374,814 | \$ (638,476) | \$ (1,817,932) |
| Operating revenues | \$ 27,979,604 | \$ 26,521,583 | \$ 1,111,682 | \$ 1,170,909 |
| Operating expenses | (20,036,762) | (18,852,626) | (1,291,969) | (1,339,052) |
| Depreciation and amortization | (9,421,653) | (9,784,240) | (117,746) | (127,830) |
| Operating loss | (1,478,811) | (2,115,283) | (298,033) | (295,973) |
| Net nonoperating income (deductions) | 2,629,750 | 2,609,350 | (9,625) | (9,625) |
| Capital contributions | 30,198,577 | 14,474,721 | 1,487,114 | 360,278 |
| Increase in net position | \$ 31,349,516 | \$ 14,968,788 | \$ 1,179,456 | \$ 54,680 |
| Cash flows: | | | | |
| Operating activities | \$ 7,821,935 | \$ 8,174,023 | \$ (201,105) | \$ (233,363) |
| Investing activities | 1,464,105 | 356,878 | - | - |
| Capital and related financing activities | (7,552,286) | (7,580,415) | 201,106 | 233,360 |
| Net change in cash and cash equivalents | 1,733,754 | 950,486 | 1 | (3) |
| Cash and cash equivalents at beginning of the year | 14,496,136 | 13,545,650 | 398 | 401 |
| Cash and cash equivalents at end of the year | \$ 16,229,890 | \$ 14,496,136 | \$ 399 | \$ 398 |

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STATISTICAL SECTION

This part of the Metropolitan Knoxville Airport Authority's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the airport's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the airport's financial performance and well-being have changed over time.

Debt Capacity

These schedules present information to help the reader assess the affordability of the airport's current levels of outstanding debt and the airport's ability to issue additional debt in the future.

Revenue Capacity

These schedules contain information to help the reader assess the airport's most significant local revenue sources.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the airport's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the airport's financial report relates of the services the airport provides and activities it performs.

SCHEDULE 1:*Operating revenues and expenses - last ten years (unaudited)*

| | 2017 | 2016 | 2015 |
|---|-----------------------|-----------------------|-----------------------|
| Aviation area | \$ 5,157,606 | \$ 5,133,877 | \$ 5,038,282 |
| Terminal area | 20,075,555 | 18,848,009 | 18,625,307 |
| Air cargo and other properties | 3,858,125 | 3,710,606 | 3,810,517 |
| Total operating revenues | 29,091,286 | 27,692,492 | 27,474,106 |
| Operating expenses: | | | |
| Aviation area | 2,203,523 | 2,326,391 | 2,241,790 |
| Terminal area | 5,874,317 | 5,506,569 | 5,579,811 |
| Air cargo and other properties | 1,453,788 | 1,529,873 | 1,621,939 |
| General area: | | | |
| Safety | 4,609,726 | 4,394,476 | 4,536,099 |
| Administration | 7,187,377 | 6,434,369 | 5,631,927 |
| Total operating expenses | 21,328,731 | 20,191,678 | 19,611,566 |
| Operating income before adjustments | 7,762,555 | 7,500,814 | 7,862,540 |
| Depreciation and amortization (a) | (9,539,399) | (9,912,070) | (10,717,072) |
| Operating loss | (1,776,844) | (2,411,256) | (2,854,532) |
| Net nonoperating income (deductions) (a) | 2,620,125 | 2,599,725 | 1,933,972 |
| Loss before capital contributions | 843,281 | 188,469 | (920,560) |
| Capital contributions - grant receipts from governmental agencies | 31,685,691 | 14,834,999 | 9,437,726 |
| Increase in net position | 32,528,972 | 15,023,468 | 8,517,166 |
| Net position at beginning of year, as previously reported | 151,556,882 | 136,533,414 | 128,016,248 |
| Restatement of beginning net position for adoption of new accounting guidance (a) | - | - | - |
| Net position at end of year | \$ 184,085,854 | \$ 151,556,882 | \$ 136,533,414 |
| Net position at end of year: | | | |
| Net investment in capital assets | \$ 123,577,195 | \$ 91,628,740 | \$ 81,407,805 |
| Restricted-expendable | 1,924,721 | 2,029,096 | 1,704,693 |
| Unrestricted | 58,583,938 | 57,899,046 | 53,420,916 |
| Net position at end of year | \$ 184,085,854 | \$ 151,556,882 | \$ 136,533,414 |

Source: Audited Financial Statements, 2008-2017

(a) The Authority adopted GASB Statement No. 65 in 2013, which requires bond issuance costs be expensed in the period incurred. Accordingly, fiscal years 2012 and 2011 have been restated to reflect the elimination of both unamortized bond issuance costs and deferred loss on bond refunding. The Authority does not consider it practicable to restate 2008-2010.

SCHEDULE 1:*Operating revenues and expenses - last ten years (unaudited) (continued)*

| 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| \$ 4,693,762 | \$ 4,453,779 | \$ 4,559,117 | \$ 4,600,042 | \$ 4,092,297 | \$ 4,420,850 | \$ 4,622,734 |
| 17,922,026 | 16,327,587 | 16,909,768 | 15,942,418 | 15,008,917 | 15,578,397 | 15,612,877 |
| 3,693,140 | 3,759,280 | 3,650,100 | 3,747,735 | 3,537,641 | 3,599,473 | 3,812,602 |
| 26,308,928 | 24,540,646 | 25,118,985 | 24,290,195 | 22,638,855 | 23,598,720 | 24,048,213 |
| 2,190,390 | 2,031,595 | 2,060,220 | 2,052,420 | 1,846,296 | 1,606,297 | 1,762,287 |
| 5,273,861 | 5,328,985 | 5,479,501 | 5,488,460 | 5,211,340 | 5,525,804 | 4,769,384 |
| 1,673,103 | 1,644,636 | 1,536,805 | 1,430,679 | 1,215,671 | 1,386,129 | 1,286,001 |
| 4,599,895 | 4,282,979 | 4,087,663 | 4,021,409 | 3,908,435 | 3,827,547 | 3,787,698 |
| 5,047,911 | 5,114,112 | 5,423,518 | 4,679,484 | 4,318,658 | 4,587,923 | 4,494,436 |
| 18,785,160 | 18,402,307 | 18,587,707 | 17,672,452 | 16,500,400 | 16,933,700 | 16,099,806 |
| 7,523,768 | 6,138,339 | 6,531,278 | 6,617,743 | 6,138,455 | 6,665,020 | 7,948,407 |
| (11,004,758) | (11,387,084) | (12,269,546) | (13,194,950) | (12,056,454) | (12,006,890) | (11,755,556) |
| (3,480,990) | (5,248,745) | (5,738,268) | (6,577,207) | (5,917,999) | (5,341,870) | (3,807,149) |
| 1,345,107 | (2,650,537) | 358,676 | 604,526 | 924,371 | 77,185 | (619,703) |
| (2,135,883) | (7,899,282) | (5,379,592) | (5,972,681) | (4,993,628) | (5,264,685) | (4,426,852) |
| 4,547,269 | 14,463,193 | 5,598,693 | 6,929,117 | 9,771,088 | 10,814,592 | 13,462,701 |
| 2,411,386 | 6,563,911 | 219,101 | 956,436 | 4,777,460 | 5,549,907 | 9,035,849 |
| 125,604,862 | 119,040,951 | 118,821,850 | 120,241,621 | 115,464,161 | 109,914,254 | 100,878,405 |
| - | - | - | (2,376,207) | - | - | - |
| \$ 128,016,248 | \$ 125,604,862 | \$ 119,040,951 | \$ 118,821,850 | \$ 120,241,621 | \$ 115,464,161 | \$ 109,914,254 |
| \$ 75,967,891 | \$ 82,343,430 | \$ 75,944,810 | \$ 74,579,458 | \$ 77,855,580 | \$ 74,649,890 | \$ 73,317,006 |
| 1,532,747 | 1,411,832 | 1,358,687 | 1,050,744 | 1,187,852 | 1,113,328 | 868,759 |
| 50,515,610 | 41,849,600 | 41,737,454 | 43,191,648 | 41,198,189 | 39,700,943 | 35,728,489 |
| \$ 128,016,248 | \$ 125,604,862 | \$ 119,040,951 | \$ 118,821,850 | \$ 120,241,621 | \$ 115,464,161 | \$ 109,914,254 |

SCHEDULE 2:

Debt service coverage - last ten years (unaudited)

| | 2017 | 2016 | 2015 |
|---|----------------------|----------------------|----------------------|
| Operating revenues: | | | |
| Aviation area | \$ 5,157,606 | \$ 5,133,877 | \$ 5,038,282 |
| Terminal area | 20,075,555 | 18,848,009 | 18,625,307 |
| Air cargo and other properties | 3,858,125 | 3,710,606 | 3,810,517 |
| Total operating revenues | 29,091,286 | 27,692,492 | 27,474,106 |
| Operating expenses: | | | |
| Aviation area | 2,203,523 | 2,326,391 | 2,241,790 |
| Terminal area | 5,874,317 | 5,506,569 | 5,579,811 |
| Air cargo and other properties | 1,453,788 | 1,529,873 | 1,621,939 |
| General area: | | | |
| Safety | 4,609,726 | 4,394,476 | 4,536,099 |
| Administration | 7,187,377 | 6,434,369 | 5,631,927 |
| Total operating expenses | 21,328,731 | 20,191,678 | 19,611,566 |
| Operating income before other income and other expenses | 7,762,555 | 7,500,814 | 7,862,540 |
| Other income | 35,833,765 | 19,289,065 | 13,082,418 |
| Net revenues | 43,596,320 | 26,789,879 | 20,944,958 |
| Less capital contributions - grant receipts from government agencies included in other income | (31,685,691) | (14,834,999) | (9,437,726) |
| Net revenues less grant receipts from government agencies in other income | \$ 11,910,629 | \$ 11,954,880 | \$ 11,507,232 |
| Debt service on airport revenue general obligation bonds (a) | \$ 6,799,043 | \$ 6,476,919 | \$ 6,366,528 |
| Coverage ratio - airport revenue general obligation bonds | 175.2% | 184.6% | 180.7% |

Source: Audited Financial Statements, 2008-2017

(a) Amounts based on scheduled principal payments.

Note: Revenues, as defined in the Master Resolutions, are pledged for payments.

SCHEDULE 2:

Debt service coverage - last ten years (unaudited) (continued)

| 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---------------|--------------|---------------|---------------|---------------|---------------|---------------|
| \$ 4,693,762 | \$ 4,453,779 | \$ 4,559,117 | \$ 4,600,042 | \$ 4,092,297 | \$ 4,420,850 | \$ 4,622,734 |
| 17,922,026 | 16,327,587 | 16,909,768 | 15,942,418 | 15,008,917 | 15,578,397 | 15,612,877 |
| 3,693,140 | 3,759,280 | 3,650,100 | 3,747,735 | 3,537,641 | 3,599,473 | 3,812,602 |
| 26,308,928 | 24,540,646 | 25,118,985 | 24,290,195 | 22,638,855 | 23,598,720 | 24,048,213 |
| 2,190,390 | 2,031,595 | 2,060,220 | 2,052,420 | 1,846,296 | 1,606,297 | 1,762,287 |
| 5,273,861 | 5,328,985 | 5,479,501 | 5,488,460 | 5,211,340 | 5,525,804 | 4,769,384 |
| 1,673,103 | 1,644,636 | 1,536,805 | 1,430,679 | 1,215,671 | 1,386,129 | 1,286,001 |
| 4,599,895 | 4,282,979 | 4,087,663 | 4,021,409 | 3,908,435 | 3,827,547 | 3,787,698 |
| 5,047,911 | 5,114,112 | 5,423,518 | 4,679,484 | 4,318,658 | 4,587,923 | 4,494,436 |
| 18,785,160 | 18,402,307 | 18,587,707 | 17,672,452 | 16,500,400 | 16,933,700 | 16,099,806 |
| 7,523,768 | 6,138,339 | 6,531,278 | 6,617,743 | 6,138,455 | 6,665,020 | 7,948,407 |
| 8,318,110 | 18,127,924 | 9,742,814 | 10,976,093 | 14,017,466 | 15,568,628 | 18,647,493 |
| 15,841,878 | 24,266,263 | 16,274,092 | 17,593,836 | 20,155,921 | 22,233,648 | 26,595,900 |
| (4,547,269) | (14,463,193) | (5,598,693) | (6,929,117) | (9,771,088) | (10,814,592) | (13,462,701) |
| \$ 11,294,609 | \$ 9,803,070 | \$ 10,675,399 | \$ 10,664,719 | \$ 10,384,833 | \$ 11,419,056 | \$ 13,133,199 |
| \$ 6,377,790 | \$ 6,645,106 | \$ 6,862,478 | \$ 6,998,949 | \$ 6,561,014 | \$ 7,768,148 | \$ 8,778,101 |
| 177.1% | 147.5% | 155.6% | 152.4% | 158.3% | 147.0% | 149.6% |

SCHEDULE 3:*Ratios of debt service and outstanding debt - last ten years (unaudited)*

| | 2017 | 2016 | 2015 | 2014 |
|--|----------------------|----------------------|----------------------|----------------------|
| Principal (a) | \$ 4,590,000 | \$ 4,365,000 | \$ 4,155,000 | \$ 3,950,000 |
| Interest (b) | 2,209,043 | 2,111,919 | 2,211,528 | 2,427,790 |
| Total debt service | \$ 6,799,043 | \$ 6,476,919 | \$ 6,366,528 | \$ 6,377,790 |
| Total expenses | \$ 33,077,173 | \$ 32,215,667 | \$ 32,540,166 | \$ 32,217,708 |
| Less depreciation and amortization (c) | (9,539,399) | (9,912,070) | (10,717,072) | (11,004,758) |
| Add principal (a) | 4,590,000 | 4,365,000 | 4,155,000 | 3,950,000 |
| Total general expenditures | \$ 28,127,774 | \$ 26,668,597 | \$ 25,978,094 | \$ 25,162,950 |
| Ratio of debt service to expenditures | 24.2% | 24.3% | 24.5% | 25.3% |
| Outstanding debt (d) | \$ 67,520,000 | \$ 70,635,000 | \$ 75,000,000 | \$ 79,155,000 |
| Total number of passengers (e) | 1,828,089 | 1,774,290 | 1,739,716 | 1,711,664 |
| Outstanding debt per passenger | \$ 36.93 | \$ 39.81 | \$ 43.11 | \$ 46.24 |
| Debt service per passenger | \$ 3.72 | \$ 3.65 | \$ 3.66 | \$ 3.73 |

*Source: Audited Financial Statements, 2008-2017**(a) Amounts based on scheduled principal payments**(b) Includes net capitalized interest**(c) The Authority adopted GASB Statement No. 65 in 2013, which requires bond issuance costs be expensed in the period incurred. Accordingly, fiscal years 2012 and 2011 have been restated to reflect the elimination of both unamortized bond issuance costs and deferred loss on bond refunding. The Authority does not consider it practicable to restate 2008-2010.**(d) Outstanding debt is for Airport Revenue Obligations, payable from general airport revenue.**(e) Passenger numbers for the calendar year ended during the fiscal year.*

SCHEDULE 3:

Ratios of debt service and outstanding debt - last ten years (unaudited) (continued)

| 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2005 |
|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| \$ 3,755,000 | \$ 3,575,000 | \$ 3,400,000 | \$ 3,235,000 | \$ 3,075,000 | \$ 2,925,000 | \$ 405,000 |
| 2,890,106 | 3,287,478 | 3,598,949 | 3,326,014 | 4,693,148 | 5,853,101 | 4,514,779 |
| \$ 6,645,106 | \$ 6,862,478 | \$ 6,998,949 | \$ 6,561,014 | \$ 7,768,148 | \$ 8,778,101 | 4,919,779 |
| \$ 32,679,497 | \$ 34,144,731 | \$ 34,528,903 | \$ 31,882,868 | \$ 33,633,738 | \$ 33,708,463 | 28,201,855 |
| (11,387,084) | (12,269,546) | (13,257,502) | (12,056,454) | (12,006,890) | (11,755,556) | (11,157,790) |
| 3,755,000 | 3,575,000 | 3,400,000 | 3,235,000 | 3,075,000 | 2,925,000 | 405,000 |
| \$ 25,047,413 | \$ 25,450,185 | \$ 24,671,401 | \$ 23,061,414 | \$ 24,701,848 | \$ 24,877,907 | \$ 17,449,065 |
| 26.5% | 27.0% | 28.4% | 28.5% | 31.4% | 35.3% | 28.0% |
| \$ 79,850,000 | \$ 80,505,000 | \$ 89,151,626 | \$ 92,414,952 | \$ 95,505,419 | \$ 98,878,982 | \$ 107,047,670 |
| 1,746,074 | 1,773,654 | 1,687,763 | 1,680,428 | 1,742,090 | 1,821,469 | 1,607,077 |
| \$ 45.73 | \$ 45.39 | \$ 52.82 | \$ 54.99 | \$ 54.82 | \$ 54.29 | \$ 66.61 |
| \$ 3.81 | \$ 3.87 | \$ 4.15 | \$ 3.90 | \$ 4.46 | \$ 4.82 | \$ 3.06 |

SCHEDULE 4:

*McGhee Tyson Airport annual terminal rents and landing fees
last ten years (unaudited)*

| | 2017 | 2016 | 2015 |
|--|-------------|-------------|-------------|
| Terminal rent: | | | |
| Ticket counter (per linear foot) | \$42.0124 | \$38.7571 | \$38.6210 |
| Ticket queuing (per square foot) (a) | \$42.0124 | \$38.7571 | \$38.6210 |
| Office space (per square foot) | \$42.0124 | \$38.7571 | \$38.6210 |
| Outbound baggage space (per square foot) | \$42.0124 | \$38.7571 | \$38.6210 |
| Operations space (per square foot) | \$42.0124 | \$38.7571 | \$38.6210 |
| Baggage service office (per square foot) | \$42.0124 | \$38.7571 | \$38.6210 |
| Holdroom area (per square foot) | \$42.0124 | \$38.7571 | \$38.6210 |
| Baggage claim (per square foot) | \$42.0124 | \$38.7571 | \$38.6210 |
| Apron charge (per gate) (a) | \$82,788.00 | \$81,934.00 | \$77,624.00 |
| Loading bridge rent (per bridge) (a) | \$45,176.00 | \$45,436.00 | \$51,378.00 |
| Landing fee (per 1,000 pounds) | \$3.23 | \$3.50 | \$3.43 |

Notes:

The revenue bases to which these rates are applied and their principal payers can be found in schedules 7, 9 and 11.

(a) Fees and rental charges became effective with beginning of fiscal year for which amounts are shown.

SCHEDULE 4:

McGhee Tyson Airport annual terminal rents and landing fees - last ten years (unaudited)
last ten years (unaudited) (continued)

| 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| \$37.6869 | \$38.9026 | \$39.3310 | \$39.4490 | \$36.1119 | \$39.6946 | \$37.3748 |
| \$37.6869 | \$38.9026 | \$39.3310 | \$39.4490 | \$36.1119 | \$39.6946 | \$37.3748 |
| \$37.6869 | \$38.9026 | \$39.3310 | \$39.4490 | \$36.1119 | \$39.6946 | \$37.3748 |
| \$37.6869 | \$38.9026 | \$39.3310 | \$39.4490 | \$36.1119 | \$39.6946 | \$37.3748 |
| \$37.6869 | \$38.9026 | \$39.3310 | \$39.4490 | \$36.1119 | \$39.6946 | \$37.3748 |
| \$37.6869 | \$38.9026 | \$39.3310 | \$39.4490 | \$36.1119 | \$39.6946 | \$37.3748 |
| \$37.6869 | \$38.9026 | \$39.3310 | \$39.4490 | \$36.1119 | \$39.6946 | \$37.3748 |
| \$37.6869 | \$38.9026 | \$39.3310 | \$39.4490 | \$36.1119 | \$39.6946 | \$37.3748 |
| \$75,751.00 | \$70,476.00 | \$67,492.00 | \$68,396.00 | \$63,160.00 | \$60,331.00 | \$68,652.00 |
| \$45,955.00 | \$47,828.00 | \$43,557.00 | \$46,324.00 | \$36,518.00 | \$49,607.00 | \$19,928.00 |
| \$3.28 | \$3.09 | \$2.82 | \$2.80 | \$2.56 | \$2.46 | \$2.64 |

SCHEDULE 5:*Airline arrivals and departures - last ten calendar years (unaudited)*

| Calendar Year | Air carrier | Air taxi | General aviation | Military | Total |
|--------------------------|--------------------|-----------------|-----------------------------|-----------------|--------------|
| 2007 | 8,791 | 50,039 | 58,610 | 16,293 | 133,733 |
| 2008 | 10,265 | 46,210 | 47,631 | 17,554 | 121,660 |
| 2009 | 10,007 | 41,567 | 37,993 | 14,706 | 104,273 |
| 2010 | 9,705 | 42,526 | 41,651 | 16,274 | 110,156 |
| 2011 | 8,328 | 40,101 | 40,229 | 19,138 | 107,796 |
| 2012 | 8,150 | 35,988 | 36,077 | 25,591 | 105,806 |
| 2013 | 8,939 | 34,382 | 32,592 | 24,928 | 100,841 |
| 2014 | 11,250 | 30,499 | 34,113 | 24,559 | 100,421 |
| 2015 | 11,162 | 30,120 | 32,794 | 21,473 | 95,549 |
| 2016 | 14,260 | 27,268 | 34,856 | 19,830 | 96,214 |

*Source: McGhee Tyson Airport F.A.A. Control Tower**Note: Air carriers are passenger, charter, and cargo aircraft certified by the F.A. A. to carry 60 or more passengers. Air taxis include regional, charter, and cargo aircraft that are certified to carry less than 60 passengers.*

SCHEDULE 6:*Historical airline passenger activity - last ten calendar years (unaudited)*

| Calendar Year | Passengers enplaned | Passengers deplaned | Total passengers |
|----------------------|----------------------------|----------------------------|-------------------------|
| 2007 | 913,342 | 908,127 | 1,821,469 |
| 2008 | 869,460 | 872,630 | 1,742,090 |
| 2009 | 842,347 | 838,081 | 1,680,428 |
| 2010 | 851,275 | 836,488 | 1,687,763 |
| 2011 | 888,146 | 885,508 | 1,773,654 |
| 2012 | 875,687 | 870,387 | 1,746,074 |
| 2013 | 858,671 | 852,993 | 1,711,664 |
| 2014 | 871,964 | 867,752 | 1,739,716 |
| 2015 | 892,666 | 881,624 | 1,774,290 |
| 2016 | 916,583 | 912,344 | 1,828,927 |

*Source: Metropolitan Knoxville Airport Authority Aviation's Activities Statistics Report***SCHEDULE 7:***Distribution of airline passengers - calendar year ended December 31, 2016 (unaudited)*

| Airline | Enplaned passengers | Deplaned passengers | Total passengers | Percentage of passengers |
|----------------|----------------------------|----------------------------|-------------------------|---------------------------------|
| United | 156,061 | 155,946 | 312,007 | 17.05% |
| Allegiant Air | 128,763 | 128,070 | 256,833 | 14.04% |
| American | 292,318 | 293,099 | 585,417 | 32.01% |
| Delta | 319,500 | 315,655 | 635,155 | 34.73% |
| Frontier | 19,025 | 18,377 | 37,402 | 2.05% |
| Other | 916 | 1,197 | 2,113 | 0.12% |
| Total | 916,583 | 912,344 | 1,828,927 | 100.00% |

*Source: Metropolitan Knoxville Airport Authority, Annual Activity Report**Note: The Authority has elected not to report a ten-year history of passengers by airline because history has shown when a particular airline withdraws from the market, another airline enters the market or an existing airline expands their flights.*

SCHEDULE 8:*Cargo - last ten calendar years (in pounds) (unaudited)*

| Calendar Year | Freight | | Total cargo |
|------------------|------------|------------|----------------|
| | Enplaned | Deplaned | |
| 2007 | 46,843,699 | 53,461,619 | 100,305,318 |
| 2008 | 48,079,845 | 51,042,101 | 99,121,946 |
| 2009 | 45,843,610 | 39,398,046 | 85,241,656 |
| 2010 | 49,734,211 | 44,055,635 | 93,789,846 |
| 2011 | 49,099,154 | 43,466,038 | 92,565,192 |
| 2012 | 49,394,961 | 42,102,846 | 91,497,807 |
| 2013 | 43,486,588 | 40,005,659 | 83,492,247 |
| 2014 | 36,102,190 | 38,011,913 | 74,114,103 |
| 2015 | 36,628,013 | 40,807,682 | 77,435,695 |
| 2016 | 37,507,288 | 48,009,809 | 85,517,097 |

*Source: Metropolitan Knoxville Airport Authority Aviation's Activities Statistics Report***SCHEDULE 9:***Distribution of cargo - calendar year ended December 31, 2016 (in pounds) (unaudited)*

| Airline | Freight | | Total | Percentage |
|------------------|-------------------|-------------------|-------------------|-------------|
| | Enplaned | Deplaned | | |
| Major: | | | | |
| Delta | 152,496 | 200,061 | 352,557 | 0.41% |
| Regional: | | | | |
| PSA | 26,045 | 79,774 | 105,819 | 0.12% |
| Cargo: | | | | |
| FedEx | 27,209,178 | 36,805,306 | 64,014,484 | 74.86% |
| UPS | 10,075,486 | 10,756,913 | 20,832,399 | 24.36% |
| AmeriFlight | 11,154 | 159,503 | 170,657 | 0.20% |
| Other Freight | 32,929 | 8,252 | 41,181 | 0.05% |
| Total | 37,507,288 | 48,009,809 | 85,517,097 | 100% |

*Source: Metropolitan Knoxville Airport Authority, Annual Activity Report.**Note: The Authority has elected not to report a ten-year history of cargo by airline because history has shown when a particular airline withdraws from the market, another airline enters the market or an existing airline expands their flights.*

SCHEDULE 10:*Aircraft landed weights - last ten calendar years (in thousand pound units) (unaudited)*

| Calendar Year | Major passenger airlines | Regional airlines | Cargo airlines | Total |
|--------------------------|-------------------------------------|------------------------------|---------------------------|--------------|
| 2007 | 136,898 | 1,030,626 | 318,883 | 1,486,407 |
| 2008 | 64,228 | 1,065,072 | 343,897 | 1,473,197 |
| 2009 | 13,333 | 1,075,228 | 307,491 | 1,396,052 |
| 2010 | 30,030 | 1,083,329 | 312,442 | 1,425,801 |
| 2011 | 38,956 | 1,025,804 | 311,389 | 1,376,149 |
| 2012 | 55,273 | 933,345 | 313,711 | 1,302,329 |
| 2013 | 190,816 | 782,492 | 303,604 | 1,276,912 |
| 2014 | 261,204 | 732,616 | 284,087 | 1,277,907 |
| 2015 | 305,212 | 686,658 | 270,808 | 1,262,678 |
| 2016 | 287,249 | 762,655 | 294,085 | 1,343,989 |

Source: Metropolitan Knoxville Airport Authority Aviation's Activities Statistics Report

SCHEDULE 11:*Aircraft landed weights - ten calendar year trend history (in thousand pound units) (unaudited)*

| Airline | 2016 | | 2015 | | 2014 | | 2013 | |
|---------------------|------------------|-------------|------------------|-------------|------------------|-------------|------------------|-------------|
| | Number | % | Number | % | Number | % | Number | % |
| ExpressJet | 205,223 | 15% | 210,068 | 17% | 211,504 | 16% | 209,541 | 17% |
| PSA | 224,151 | 17% | 203,659 | 17% | 216,880 | 17% | 222,720 | 17% |
| FedEx | 220,114 | 16% | 190,465 | 15% | 194,247 | 15% | 215,904 | 17% |
| Pinnacle | 165,308 | 12% | 163,057 | 13% | 155,464 | 12% | 144,815 | 12% |
| Delta | 140,618 | 11% | 135,218 | 11% | 135,464 | 11% | 79,204 | 6% |
| Allegiant Air | 127,661 | 10% | 102,894 | 8% | 103,242 | 8% | 98,341 | 8% |
| UPS | 72,800 | 6% | 78,954 | 6% | 87,938 | 7% | 85,739 | 7% |
| ASA | 56,511 | 4% | 47,893 | 4% | 33,584 | 3% | 76,112 | 6% |
| Trans States | 46,251 | 4% | 43,644 | 3% | - | 0% | - | 0% |
| Air Wisconsin | 26,618 | 2% | 14,570 | 1% | 12,737 | 1% | 3,995 | 0% |
| Frontier | 18,970 | 1% | 15,886 | 1% | 22,498 | 2% | 12,768 | 1% |
| Skywest | 17,996 | 1% | 1,457 | 0% | - | 0% | - | 0% |
| GO Jets | 13,936 | 1% | - | 0% | - | 0% | - | 0% |
| American Eagle | 5,164 | 0% | 44,747 | 4% | 89,496 | 7% | 98,729 | 8% |
| AmeriFlight | 1,171 | 0% | 1,389 | 0% | 1,544 | 0% | 1,621 | 0% |
| Mountain Air | 156 | 0% | - | 0% | 217 | 0% | 128 | 0% |
| Shuttle America | - | 0% | 2,596 | 0% | - | 0% | - | 0% |
| Chataqua | - | 0% | - | 0% | 12,558 | 1% | 16,049 | 1% |
| Piedmont | - | 0% | - | 0% | 394 | 0% | 3,235 | 0% |
| Air Net | - | 0% | - | 0% | 72 | 0% | 187 | 0% |
| Mesa | - | 0% | - | 0% | - | 0% | 3,747 | 0% |
| Compass | - | 0% | - | 0% | - | 0% | 3,523 | 0% |
| Continental Express | - | 0% | - | 0% | - | 0% | - | 0% |
| AirTran Airways | - | 0% | - | 0% | - | 0% | - | 0% |
| Comair | - | 0% | - | 0% | - | 0% | - | 0% |
| Mesaba | - | 0% | - | 0% | - | 0% | - | 0% |
| Vision Airlines | - | 0% | - | 0% | - | 0% | - | 0% |
| Freedom | - | 0% | - | 0% | - | 0% | - | 0% |
| DHL | - | 0% | - | 0% | - | 0% | - | 0% |
| Other | 1,341 | 0% | 6,181 | 0% | 68 | 0% | 554 | 0% |
| Total | 1,343,989 | 100% | 1,262,678 | 100% | 1,277,907 | 100% | 1,276,912 | 100% |

Source: Metropolitan Knoxville Airport Authority, Annual Activity Report

SCHEDULE 11:*Aircraft landed weights - ten calendar year trend history (in thousand pound units) (unaudited) (continued)*

| 2012 | | 2011 | | 2010 | | 2009 | | 2008 | | 2007 | |
|------------------|-------------|------------------|-------------|------------------|-------------|------------------|-------------|------------------|-------------|------------------|-------------|
| Number | % | Number | % | Number | % | Number | % | Number | % | Number | % |
| 112,772 | 9% | 116,312 | 8% | 77,703 | 6% | 25,732 | 2% | - | 0% | - | 0% |
| 211,818 | 16% | 203,805 | 15% | 222,195 | 16% | 180,509 | 13% | 184,484 | 13% | 171,875 | 12% |
| 244,906 | 19% | 251,577 | 18% | 252,764 | 18% | 240,053 | 17% | 215,264 | 15% | 187,799 | 13% |
| 180,081 | 14% | 159,691 | 12% | 153,709 | 11% | 190,705 | 13% | 175,401 | 12% | 150,729 | 10% |
| 33,442 | 3% | 38,956 | 3% | 30,030 | 2% | 1,013 | 0% | 64,228 | 4% | 136,898 | 9% |
| 94,506 | 7% | 95,997 | 7% | 105,754 | 7% | 108,339 | 8% | 89,689 | 6% | 70,781 | 5% |
| 55,273 | 4% | 57,600 | 4% | 55,862 | 4% | 66,235 | 5% | 76,258 | 5% | 79,310 | 5% |
| 109,435 | 8% | 107,859 | 8% | 136,356 | 10% | 132,687 | 9% | 98,002 | 6% | 82,101 | 6% |
| 36 | 0% | 4,851 | 0% | 18,722 | 1% | 36,805 | 3% | 62,930 | 4% | 102,288 | 7% |
| - | 0% | 47 | 0% | 47 | 0% | - | 0% | 2,444 | 0% | 14,006 | 1% |
| 2,914 | 0% | 15,601 | 1% | - | 0% | - | 0% | - | 0% | - | 0% |
| 8,320 | 1% | 22,469 | 2% | 53,019 | 4% | 53,659 | 4% | 66,564 | 5% | 54,317 | 4% |
| - | 0% | - | 0% | - | 0% | - | 0% | - | 0% | - | 0% |
| 163,255 | 13% | 135,089 | 10% | 145,312 | 10% | 130,633 | 9% | 120,159 | 8% | 125,742 | 8% |
| - | 0% | 1,576 | 0% | 720 | 0% | - | 0% | - | 0% | - | 0% |
| - | 0% | 298 | 0% | - | 0% | 81 | 0% | 94 | 0% | 45 | 0% |
| - | 0% | - | 0% | 1,839 | 0% | 26,202 | 2% | 19,714 | 1% | 217 | 0% |
| 1,530 | 0% | 8,970 | 1% | 8,893 | 1% | 851 | 0% | 8,040 | 1% | 16,644 | 1% |
| 368 | 0% | 6,724 | 0% | 797 | 0% | 25,544 | 2% | 23,947 | 2% | 17,441 | 1% |
| - | 0% | 338 | 0% | 3,096 | 0% | - | 0% | - | 0% | - | 0% |
| - | 0% | 67 | 0% | 3,600 | 0% | 24,038 | 2% | 12,574 | 1% | 74 | 0% |
| 56 | 0% | 5,022 | 0% | - | 0% | - | 0% | - | 0% | - | 0% |
| 67,181 | 5% | 85,028 | 6% | 87,362 | 6% | 93,466 | 7% | 109,789 | 7% | 105,441 | 7% |
| 9,569 | 1% | 27,216 | 2% | 28,256 | 2% | 12,320 | 1% | - | 0% | - | 0% |
| 2,785 | 0% | 14,194 | 1% | 16,168 | 1% | 34,557 | 2% | 69,294 | 5% | 87,548 | 6% |
| 2,625 | 0% | 9,150 | 1% | 5,700 | 0% | - | 0% | - | 0% | - | 0% |
| 1,457 | 0% | 7,712 | 1% | - | 0% | - | 0% | - | 0% | - | 0% |
| - | 0% | - | 0% | 17,469 | 1% | 10,880 | 1% | 21,358 | 1% | 31,281 | 2% |
| - | 0% | - | 0% | - | 0% | 1,122 | 0% | 52,280 | 4% | 51,729 | 3% |
| - | 0% | - | 0% | 428 | 0% | 621 | 0% | 684 | 0% | 142 | 0% |
| 1,302,329 | 100% | 1,376,149 | 100% | 1,425,801 | 100% | 1,396,052 | 100% | 1,473,197 | 100% | 1,486,408 | 100% |

SCHEDULE 12:
Total Passengers - ten calendar year trend history (unaudited)

| Airline | 2016 | | 2015 | | 2014 | | 2013 | |
|---------------------|------------------|-------------|------------------|-------------|------------------|-------------|------------------|-------------|
| | Number | % | Number | % | Number | % | Number | % |
| Delta | 520,258 | 28% | 513,790 | 29% | 493,167 | 28% | 130,373 | 8% |
| PSA | 356,417 | 20% | 340,055 | 19% | 352,850 | 20% | 351,831 | 21% |
| Allegiant Air | 256,833 | 14% | 215,756 | 12% | 219,023 | 13% | 209,320 | 12% |
| American Eagle | 209,638 | 11% | 242,441 | 14% | 153,565 | 9% | 222,315 | 13% |
| ExpressJet | 179,626 | 10% | 219,067 | 12% | 374,418 | 22% | 326,156 | 19% |
| ASA | 102,241 | 6% | 87,774 | 5% | 61,053 | 4% | 140,937 | 8% |
| Trans States | 86,458 | 5% | 78,376 | 5% | - | 0% | - | 0% |
| Frontier | 37,402 | 2% | 30,558 | 2% | 42,839 | 2% | 24,355 | 1% |
| Skywest | 32,396 | 2% | 6,668 | 0% | - | 0% | - | 0% |
| Go Jets | 24,077 | 1% | - | 0% | - | 0% | - | 0% |
| Air Wisconsin | 19,362 | 1% | 18,528 | 1% | 16,567 | 1% | 4,971 | 0% |
| Shuttle America | - | 0% | 5,003 | 0% | - | 0% | - | 0% |
| Chautauqua | - | 0% | - | 0% | 20,444 | 1% | 25,833 | 2% |
| Piedmont | - | 0% | - | 0% | 833 | 0% | 5,774 | 0% |
| Endeavor Air | - | 0% | - | 0% | - | 0% | 248,227 | 15% |
| Compass | - | 0% | - | 0% | - | 0% | 5,598 | 0% |
| Mesa | - | 0% | - | 0% | - | 0% | 5,113 | 0% |
| Continental Express | - | 0% | - | 0% | - | 0% | - | 0% |
| AirTran Airways | - | 0% | - | 0% | - | 0% | - | 0% |
| Comair | - | 0% | - | 0% | - | 0% | - | 0% |
| Vision Airlines | - | 0% | - | 0% | - | 0% | - | 0% |
| Mesaba | - | 0% | - | 0% | - | 0% | - | 0% |
| Freedom Airlines | - | 0% | - | 0% | - | 0% | - | 0% |
| Northwest | - | 0% | - | 0% | - | 0% | - | 0% |
| Other | 4,219 | 0% | 16,274 | 1% | 4,957 | 0% | 10,861 | 1% |
| Total | 1,828,927 | 100% | 1,774,290 | 100% | 1,739,716 | 100% | 1,711,664 | 100% |

Source: Schedule 7 of Comprehensive Annual Financial Report.

SCHEDULE 12:*Total Passengers - ten calendar year trend history (unaudited) (continued)*

| 2012 | | 2011 | | 2010 | | 2009 | | 2008 | | 2007 | |
|------------------|-------------|------------------|-------------|------------------|-------------|------------------|-------------|------------------|-------------|------------------|-------------|
| Number | % | Number | % | Number | % | Number | % | Number | % | Number | % |
| 94,695 | 5% | 64,708 | 4% | 42,002 | 2% | 1,906 | 0% | 88,882 | 5% | 195,735 | 11% |
| 347,084 | 20% | 315,902 | 18% | 305,421 | 18% | 264,914 | 16% | 263,692 | 15% | 262,471 | 15% |
| 186,968 | 11% | 191,284 | 11% | 209,772 | 12% | 207,695 | 12% | 171,092 | 10% | 132,802 | 7% |
| 206,837 | 12% | 216,316 | 12% | 202,054 | 12% | 205,582 | 12% | 198,903 | 11% | 217,554 | 12% |
| 321,320 | 19% | 185,454 | 10% | 111,514 | 7% | 39,344 | 2% | - | 0% | - | 0% |
| 199,860 | 11% | 195,141 | 11% | 239,675 | 14% | 217,978 | 13% | 161,352 | 9% | 139,077 | 8% |
| - | 0% | 7,854 | 0% | 25,022 | 2% | 50,272 | 3% | 91,730 | 5% | 152,836 | 8% |
| 47,930 | 3% | 25,779 | 1% | - | 0% | - | 0% | - | 0% | - | 0% |
| - | 0% | 26,649 | 2% | 67,220 | 4% | 72,037 | 5% | 99,809 | 5% | 83,693 | 5% |
| - | 0% | - | 0% | - | 0% | - | 0% | - | 0% | - | 0% |
| 2,649 | 0% | 30 | 0% | 30 | 0% | - | 0% | 2,716 | 0% | 17,043 | 1% |
| - | 0% | - | 0% | 2,069 | 0% | 31,150 | 2% | 28,467 | 2% | - | 0% |
| - | 0% | 16,422 | 1% | 13,117 | 1% | 1,294 | 0% | 12,745 | 1% | 25,353 | 1% |
| 5,824 | 0% | 11,749 | 1% | 1,081 | 0% | 37,330 | 2% | 33,461 | 2% | 26,911 | 1% |
| 284,617 | 16% | 268,014 | 15% | 220,188 | 13% | 282,009 | 17% | 256,577 | 15% | 220,263 | 12% |
| 4,568 | 0% | 8,321 | 0% | - | 0% | - | 0% | - | 0% | - | 0% |
| 602 | 0% | - | 0% | 3,859 | 0% | 30,669 | 2% | 18,943 | 1% | - | 0% |
| 13,930 | 1% | 132,351 | 7% | 129,071 | 8% | 141,162 | 8% | 169,315 | 10% | 164,525 | 9% |
| 13,928 | 1% | 49,462 | 3% | 50,374 | 3% | 23,682 | 1% | - | 0% | - | 0% |
| 5,576 | 0% | 21,931 | 1% | 21,868 | 1% | 44,147 | 3% | 98,636 | 6% | 129,141 | 7% |
| - | 0% | 11,799 | 1% | - | 0% | - | 0% | - | 0% | - | 0% |
| - | 0% | 11,398 | 1% | - | 0% | - | 0% | - | 0% | - | 0% |
| - | 0% | - | 0% | 26,047 | 2% | 18,328 | 1% | 35,487 | 2% | 48,695 | 3% |
| - | 0% | - | 0% | - | 0% | - | 0% | 894 | 0% | 296 | 0% |
| 9,686 | 1% | 13,090 | 1% | 17,379 | 1% | 10,929 | 1% | 9,389 | 1% | 5,074 | 0% |
| 1,746,074 | 100% | 1,773,654 | 100% | 1,687,763 | 100% | 1,680,428 | 100% | 1,742,090 | 100% | 1,821,469 | 100% |

SCHEDULE 13:*Distribution of total cargo - ten calendar year trend history (in pounds)(unaudited)*

| Airline | 2016 | | 2015 | | 2014 | | 2013 | |
|---------------------|-------------------|-------------|-------------------|-------------|-------------------|-------------|-------------------|-------------|
| | Number | % | Number | % | Number | % | Number | % |
| <i>Passenger:</i> | | | | | | | | |
| Delta | 352,557 | 0% | 343,781 | 0% | 389,097 | 1% | 331,408 | 0% |
| PSA | 105,819 | 0% | 216,789 | 0% | 130,537 | 0% | 161,698 | 0% |
| American Eagle | 20,955 | 0% | 1,641 | 0% | 3,033 | 0% | - | 0% |
| ASA | - | 0% | - | 0% | - | 0% | - | 0% |
| Pinnacle | - | 0% | - | 0% | - | 0% | - | 0% |
| Comair | - | 0% | - | 0% | - | 0% | - | 0% |
| Chautauqua | - | 0% | - | 0% | - | 0% | - | 0% |
| Continental Express | - | 0% | - | 0% | - | 0% | - | 0% |
| Shuttle America | - | 0% | - | 0% | - | 0% | - | 0% |
| Skywest | - | 0% | - | 0% | - | 0% | - | 0% |
| Other | - | 0% | 3,725 | 0% | - | 0% | - | 0% |
| <i>Cargo:</i> | | | | | | | | |
| FedEx | 64,014,484 | 75% | 54,079,356 | 70% | 51,335,089 | 69% | 61,376,305 | 74% |
| UPS | 20,832,399 | 25% | 22,576,617 | 30% | 22,016,786 | 30% | 21,383,678 | 26% |
| Air Net | - | 0% | - | 0% | 531 | 0% | 19,862 | 0% |
| AmeriFlight | 170,657 | 0% | 208,316 | 0% | 225,980 | 0% | 219,296 | 0% |
| Mountain Air | 14,266 | 0% | - | 0% | - | 0% | - | 0% |
| DHL | - | 0% | - | 0% | - | 0% | - | 0% |
| Other | 5,960 | 0% | 5,470 | 0% | 13,050 | 0% | - | 0% |
| Total | 85,517,097 | 100% | 77,435,695 | 100% | 74,114,103 | 100% | 83,492,247 | 100% |

Source: Schedule 9 of Comprehensive Annual Financial Report.

SCHEDULE 13:
Distribution of total cargo - ten calendar year trend history (in pounds)(unaudited) (continued)

| 2012 | | 2011 | | 2010 | | 2009 | | 2008 | | 2007 | |
|-------------------|-------------|-------------------|-------------|-------------------|-------------|-------------------|-------------|-------------------|------------|--------------------|-------------|
| Number | % | Number | % | Number | % | Number | % | Number | % | Number | % |
| 250,349 | 0% | 155,741 | 0% | 159,235 | 0% | - | 0% | 404,524 | 0% | 704,041 | 1% |
| 232,477 | 0% | 143,361 | 0% | 98,960 | 0% | - | 0% | - | 0% | - | 0% |
| - | 0% | - | 0% | - | 0% | 29,864 | 0% | 23,232 | 0% | 22,149 | 0% |
| 16,437 | 0% | 41,931 | 0% | 49,589 | 0% | 24,950 | 0% | 38,990 | 0% | 46,187 | 0% |
| 14,273 | 0% | 8,669 | 0% | 9,306 | 0% | 66,197 | 0% | 136,690 | 0% | 131,648 | 0% |
| 2,374 | 0% | 2,383 | 0% | 47,025 | 0% | 9,911 | 0% | 14,856 | 0% | 14,741 | 0% |
| 486 | 0% | 188 | 0% | - | 0% | - | 0% | 310 | 0% | 4,199 | 0% |
| - | 0% | - | 0% | - | 0% | 63,924 | 0% | 135,820 | 0% | 129,771 | 0% |
| - | 0% | - | 0% | - | 0% | - | 0% | 1,794 | 0% | - | 0% |
| - | 0% | - | 0% | - | 0% | - | 0% | 217 | 0% | - | 0% |
| 8 | 0% | 76 | 0% | - | 0% | - | 0% | 1,507 | 0% | 1,413 | 0% |
| | | | | | | | | | | | |
| 70,280,049 | 77% | 75,006,336 | 81% | 77,185,499 | 83% | 71,579,915 | 84% | 68,529,873 | 69% | 60,063,794 | 60% |
| 20,443,189 | 23% | 16,883,576 | 19% | 15,722,927 | 17% | 13,262,819 | 16% | 14,750,798 | 15% | 21,633,065 | 22% |
| 8,744 | 0% | 38,208 | 0% | 379,301 | 0% | - | 0% | - | 0% | - | 0% |
| 227,381 | 0% | 252,284 | 0% | 138,004 | 0% | - | 0% | - | 0% | - | 0% |
| - | 0% | 32,439 | 0% | - | 0% | 14,992 | 0% | 10,382 | 0% | 6,633 | 0% |
| - | 0% | - | 0% | - | 0% | 189,084 | 0% | 15,072,953 | 15% | 17,547,677 | 17% |
| 22,040 | 0% | - | 0% | - | 0% | - | 0% | - | 0% | - | 0% |
| 91,497,807 | 100% | 92,565,192 | 100% | 93,789,846 | 100% | 85,241,656 | 100% | 99,121,946 | 99% | 100,305,318 | 100% |

SCHEDULE 14:

Authority employees and demographic data - population (unaudited)

| | Full-time equivalent employees as of fiscal year-end | | | | | | | | | |
|-----------------------------------|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
| Administration | 12.0 | 13.0 | 12.5 | 12.5 | 12.5 | 12.5 | 12.5 | 12.5 | 12.5 | 12.5 |
| Marketing/Public Relations | 9.0 | 9.0 | 7.0 | 7.0 | 8.0 | 7.5 | 10.0 | 8.0 | 8.0 | 9.0 |
| Engineering & Planning | 7.0 | 7.0 | 7.0 | 6.0 | 6.0 | 6.0 | 5.5 | 5.5 | 5.5 | 5.5 |
| Safety (Police & Fire) | 49.0 | 47.0 | 45.0 | 42.0 | 45.0 | 45.0 | 46.0 | 46.0 | 46.0 | 44.0 |
| Operations Administration | 12.0 | 13.0 | 12.0 | 10.5 | 9.5 | 10.0 | 9.5 | 9.5 | 9.0 | 8.0 |
| Building Maintenance (a) | 9.0 | 10.5 | 8.0 | 9.5 | 9.0 | 10.0 | 11.0 | 10.0 | 11.0 | 9.0 |
| Airfield Maintenance | 20.0 | 22.0 | 22.0 | 21.5 | 21.5 | 24.0 | 24.0 | 21.0 | 19.5 | 18.5 |
| Building Services (Custodial) | 28.0 | 29.0 | 29.0 | 28.5 | 28.5 | 31.0 | 30.0 | 29.5 | 28.0 | 32.0 |
| Knoxville Downtown Island Airport | 7.0 | 7.0 | 7.0 | 6.5 | 7.0 | 9.0 | 7.5 | 7.5 | 7.5 | 7.0 |
| Total Employees | 153.0 | 157.5 | 149.5 | 144.0 | 147.0 | 155.0 | 156.0 | 149.5 | 147.0 | 145.5 |

Notes:

A full-time employee is scheduled to work 2,080 hours per year (including vacation and sick leave). Full-time equivalent employment is calculated by dividing total labor hours by 2,080.

(a) Includes electrical maintenance.

Demographic data - population (unaudited)

| Actual | City | County | Metropolitan area (b) |
|--------|-------------|---------|-----------------------|
| 1960 | 111,827 | 250,563 | 424,586 |
| 1970 | 174,587 (a) | 276,293 | 461,876 |
| 1980 | 175,045 | 319,694 | 546,488 |
| 1990 | 165,121 | 335,749 | 585,926 |
| 2000 | 173,890 | 382,032 | 687,249 |
| 2010 | 178,874 | 432,226 | 787,919 |

Source: Bureau of the Census

Notes:

(a) Large increase in population due to annexation.

(b) Knoxville's Metropolitan Statistical Area (MSA) includes Anderson, Blount, Knox, Loudon, Sevier, and Union counties. Prior to 1983, statistics were gathered only for Anderson, Blount, Knox, and Union counties.

SCHEDULE 15:*Demographic data - unemployment information last ten years (unaudited)*

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|-----------|------|------|-------|------|------|------|------|------|------|------|
| National | 4.6% | 5.8% | 10.0% | 9.1% | 8.9% | 8.1% | 6.7% | 6.2% | 5.0% | 4.9% |
| Tennessee | 4.8 | 6.4 | 10.9 | 9.4 | 9.2 | 8.2 | 7.7 | 6.7 | 5.8 | 5.1 |

Major Tennessee metropolitan areas:

| | | | | | | | | | | |
|---------------|-----|-----|------|------|-----|-----|-----|-----|-----|-----|
| Chattanooga | 4.1 | 5.7 | 9.1 | 8.8 | 8.3 | 7.5 | 6.7 | 6.5 | 5.1 | 4.9 |
| Knoxville (a) | 3.7 | 5.1 | 8.7 | 7.9 | 7.3 | 6.7 | 6.0 | 5.8 | 5.0 | 4.7 |
| Memphis | 5.2 | 6.6 | 10.3 | 10.3 | 9.9 | 9.1 | 8.5 | 7.6 | 6.1 | 5.3 |
| Nashville | 4.0 | 5.5 | 9.4 | 8.7 | 8.0 | 6.8 | 5.5 | 5.2 | 4.2 | 3.8 |

*Source: Tennessee Department of Labor and Workforce Development**(a) Knoxville's Metropolitan Statistical Area (MSA) includes Anderson, Blount, Knox, Loudon, Sevier, and Union Counties.***SCHEDULE 16:***Demographic data - per capita personal income last ten years (unaudited)*

| Calendar Year | Tennessee | United States |
|---------------|-----------|---------------|
| 2007 | 34,117 | 39,821 |
| 2008 | 35,322 | 41,082 |
| 2009 | 34,635 | 39,376 |
| 2010 | 35,653 | 40,277 |
| 2011 | 37,452 | 42,453 |
| 2012 | 38,771 | 44,267 |
| 2013 | 38,806 | 44,462 |
| 2014 | 40,233 | 46,414 |
| 2015 | 42,094 | 48,112 |
| 2016 | 43,380 | 49,255 |

*Source: U.S. Department of Commerce Bureau of Economic Analysis***SCHEDULE 17:***Demographic data - total personal income last ten years (thousands of dollars) (unaudited)*

| Calendar Year | Tennessee | United States |
|---------------|-------------|----------------|
| 2007 | 210,695,574 | 11,995,419,000 |
| 2008 | 220,669,541 | 12,492,705,000 |
| 2009 | 218,408,222 | 12,079,444,000 |
| 2010 | 226,633,982 | 12,459,613,000 |
| 2011 | 239,633,734 | 13,233,436,000 |
| 2012 | 250,285,838 | 13,904,485,000 |
| 2013 | 252,091,031 | 14,068,960,000 |
| 2014 | 263,437,186 | 14,801,624,000 |
| 2015 | 277,832,327 | 15,463,981,000 |
| 2016 | 288,531,063 | 15,912,777,000 |

Source: U.S. Department of Commerce Bureau of Economic Analysis

SCHEDULE 18

Demographic data - top employers in Knoxville area for the last ten years (unaudited)

| | 2016 | | 2015 | | 2014 | | 2013 | |
|------------------------------|-----------|----|-----------|----|-----------|----|-----------|----|
| | Employees | % | Employees | % | Employees | % | Employees | % |
| Major Employers | | | | | | | | |
| U.S. Department of Energy | | | | | | | | |
| Oak Ridge Operations | 11,750 | 3% | 11,986 | 3% | 11,637 | 3% | 11,877 | 4% |
| Covenant Health | 10,119 | 3% | 10,304 | 3% | 10,458 | 3% | 9,122 | 3% |
| Knox County Schools | 8,146 | 2% | 7,241 | 2% | 6,804 | 2% | 7,066 | 2% |
| The University of Tennessee | | | | | | | | |
| Knoxville | 6,646 | 2% | 6,609 | 2% | 6,660 | 2% | 6,550 | 2% |
| Wal-Mart Stores, Inc. | 6,206 | 2% | 5,951 | 2% | 6,006 | 2% | 5,776 | 2% |
| McGhee Tyson | | | | | | | | |
| Air National Guard Base | 1,728 | 0% | 1,717 | 0% | 1,717 | 0% | 4,897 | 1% |
| University of Tennessee | | | | | | | | |
| Medical Center | 5,144 | 1% | 4,941 | 1% | 4,224 | 1% | 4,061 | 1% |
| K-VA-T Food Stores | 3,545 | 1% | 3,913 | 1% | 4,078 | 1% | 3,857 | 1% |
| Denso Manufacturing | | | | | | | | |
| Tennessee | 3,900 | 1% | 3,800 | 1% | 3,500 | 1% | 3,400 | 1% |
| Tennova Healthcare | 4,033 | 1% | 3,997 | 1% | 4,067 | 1% | 3,124 | 1% |
| Major Manufacturing: | | | | | | | | |
| CNS - Y-12 | 4,300 | - | n/a | - | 4,300 | 1% | 4,300 | 1% |
| Denso Manufacturing | | | | | | | | |
| Tennessee | 3,900 | 1% | 3,800 | 1% | 3,500 | 1% | 3,400 | 1% |
| Aluminum Company | | | | | | | | |
| of America | 1,160 | 0% | 1,160 | 0% | 1,176 | 0% | 1,207 | 0% |
| Green Mountain Coffee | 1,000 | 0% | 1,000 | 0% | 975 | 0% | 975 | 0% |
| SL America Corp | 1,127 | 0% | 790 | 0% | 775 | 0% | 850 | 0% |
| Exedy America Corp | 650 | 0% | 699 | 0% | 751 | 0% | 751 | 0% |
| Eagle Bend Manufacturing | 700 | 0% | 700 | 0% | 700 | 0% | 750 | 0% |
| JTEKT | 1,050 | 0% | 1,032 | 0% | 923 | 0% | 720 | 0% |
| Aisin Automotive Casting | 676 | 0% | 676 | 0% | 615 | 0% | 600 | 0% |
| Charles Blalock & Sons, Inc. | 690 | 0% | 600 | 0% | 625 | 0% | 600 | 0% |
| Major Customer | | | | | | | | |
| Service Centers: | | | | | | | | |
| Wal-Mart Stores, Inc. | 6,206 | 2% | 5,951 | 2% | 6,006 | 2% | 5,776 | 2% |
| K-VA-T Food Stores | 3,545 | 1% | 3,913 | 1% | 4,078 | 1% | 3,857 | 1% |
| The Kroger Co. | 3,129 | 1% | 2,952 | 1% | 2,616 | 1% | 2,555 | 1% |
| Dollywood Co. | 4,000 | 1% | 3,000 | 1% | 2,521 | 1% | 2,521 | 1% |
| McDonald's Corp. | 2,848 | 1% | 2,846 | 1% | 2,377 | 1% | 2,416 | 1% |
| Yum! Brands RSC | 1,809 | 0% | 1,853 | 0% | 1,830 | 0% | 1,806 | 1% |
| Cracker Barrel | 1,557 | 0% | 1,608 | 0% | 1,608 | 0% | 1,758 | 1% |
| CVS Caremark Rx | 1,701 | 0% | 1,673 | 0% | 1,740 | 0% | 1,524 | 0% |
| Pilot Flying J | 1,841 | 0% | 1,610 | 0% | 1,529 | 0% | 1,451 | 0% |
| Copper Cellar Corp. | 1,619 | 0% | 1,591 | 0% | 1,265 | 0% | 1,253 | 0% |

Source: Knoxville Area Chamber Partnership

Notes: Percentages reported above are based upon total employment in the Knoxville Metropolitan Statistical Area (MSA).

n/a = not available

SCHEDULE 18:*Demographic data - top employers in Knoxville area for the last ten years (unaudited) (continued)*

| 2012 | | 2011 | | 2010 | | 2009 | | 2008 | | 2007 | |
|-----------|----|-----------|----|-----------|----|-----------|----|-----------|----|-----------|----|
| Employees | % | Employees | % | Employees | % | Employees | % | Employees | % | Employees | % |
| 12,947 | 3% | 13,082 | 4% | 13,925 | 4% | 13,182 | 4% | 12,927 | 4% | 12,620 | 4% |
| 6,771 | 2% | 9,494 | 3% | 9,000 | 2% | 8,982 | 3% | 9,016 | 3% | 8,834 | 2% |
| 6,409 | 2% | 6,891 | 2% | 6,945 | 2% | 8,382 | 3% | 7,553 | 2% | 8,150 | 2% |
| 9,328 | 2% | 6,400 | 2% | 9,326 | 3% | 11,901 | 4% | 8,754 | 3% | 8,429 | 2% |
| 4,613 | 1% | 4,668 | 1% | 4,336 | 1% | 5,330 | 2% | 4,869 | 1% | 5,300 | 1% |
| 2,174 | 1% | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - |
| 3,986 | 1% | 3,942 | 1% | 3,802 | 1% | 3,724 | 1% | 3,727 | 1% | 3,579 | 1% |
| 3,537 | 1% | n/a | - | n/a | - | n/a | - | 3,853 | 1% | n/a | - |
| 2,184 | 1% | 2,346 | 1% | 2,700 | 1% | 2,500 | 1% | 3,000 | 1% | 2,940 | 1% |
| 5,326 | 1% | 3,857 | 1% | 5,700 | 2% | 4,368 | 1% | 5,711 | 2% | 5,904 | 2% |
| 4,478 | 1% | 4,690 | 1% | n/a | - | n/a | - | n/a | - | n/a | - |
| 2,184 | 1% | 2,346 | 1% | 2,700 | 1% | 2,500 | 1% | 3,000 | 1% | 2,940 | 1% |
| 1,207 | 0% | 1,233 | 0% | 1,218 | 0% | 1,368 | 0% | 1,758 | 1% | 1,248 | 0% |
| 900 | 0% | 900 | 0% | n/a | - | n/a | - | n/a | - | n/a | - |
| 900 | 0% | 400 | 0% | n/a | - | n/a | - | n/a | - | n/a | - |
| 725 | 0% | 710 | 0% | n/a | - | n/a | - | n/a | - | n/a | - |
| 700 | 0% | 624 | 0% | n/a | - | n/a | - | n/a | - | n/a | - |
| 722 | 0% | 596 | 0% | n/a | - | n/a | - | n/a | - | n/a | - |
| 512 | 0% | 512 | 0% | n/a | - | n/a | - | n/a | - | n/a | - |
| 590 | 0% | 525 | 0% | n/a | - | n/a | - | n/a | - | n/a | - |
| 5,326 | 1% | 4,668 | 1% | 4,336 | 1% | 5,330 | 2% | 4,869 | 1% | 5,300 | 1% |
| 3,537 | 1% | n/a | - | n/a | - | n/a | - | 3,853 | 1% | n/a | - |
| 2,668 | 1% | n/a | - | n/a | - | n/a | - | 2,089 | 1% | n/a | - |
| 2,558 | 1% | 2,534 | 1% | 2,467 | 1% | 2,550 | 1% | 2,573 | 1% | 2,500 | 1% |
| 2,858 | 1% | n/a | - | n/a | - | n/a | - | 1,650 | 0% | n/a | - |
| 1,945 | 1% | n/a | - | n/a | - | n/a | - | 2,019 | 1% | n/a | - |
| 1,467 | 0% | n/a | - | n/a | - | n/a | - | 1,599 | 0% | n/a | - |
| 1,484 | 0% | 1,377 | 0% | 1,200 | 0% | 1,775 | 1% | 1,259 | 0% | 1,082 | 0% |
| 1,365 | 0% | n/a | - | n/a | - | n/a | - | 1,128 | 0% | n/a | - |
| 1,223 | 0% | n/a | - | n/a | - | n/a | - | 1,167 | 0% | n/a | - |

SCHEDULE 19:*Airlines serving McGhee Tyson Airport (unaudited)*

June 30, 2017

Major/domestic passenger airlines

Allegiant Air
 American Airlines*
 Delta Air Lines*
 Frontier Airlines
 United Airlines*

**Some or all service offered through regional airline affiliates shown below*

Regional Airline Affiliates

Air Wisconsin Airlines/American Airlines
 Commute Air/United Airlines
 Envoy Airlines/American Airlines
 Endeavor Air /Delta Air Lines
 ExpressJet/American Airlines
 ExpressJet/Delta Air Lines
 ExpressJet/United Airlines
 GoJet Airlines/United Airlines
 Mesa Airlines/American Airlines
 Mesa Airlines/United Airlines
 Piedmont Airlines/American Airlines
 PSA Airlines/American Airlines
 Republic Airlines/United Airlines
 Shuttle America Airlines/Delta Air Lines
 Skywest Airlines/American Airlines
 Skywest Airlines/Delta Air Lines
 Skywest Airlines/United Airlines
 TransStates Airlines/American Airlines
 TransStates Airlines/United Airlines

Cargo airlines

FedEx, Inc.
 UPS Airlines, Inc.

SCHEDULE 20:*Flight information (unaudited)*

June 30, 2017

| Passenger Airlines | Destination | Daily flights | Daily seats | Aircraft |
|-------------------------------|--------------------------|--------------------------|------------------------|-----------------|
| Allegiant Air* | St. Petersburg/Tampa Bay | 1 | 177 | MD80/A320 |
| | Fort Lauderdale | 1 | 177 | MD80/A320 |
| | Orlando-Sanford | 1 | 177 | MD80/A320 |
| | Punta Gorda/SW Florida | 1 | 177 | MD80/A320 |
| | Baltimore/Washington | 1 | 177 | MD80/A320 |
| | Destin/Fort Walton | 1 | 177 | MD80/A320 |
| | Las Vegas | 1 | 166 | MD80/A320 |
| | Newark | 1 | 177 | MD80/A320 |
| American Airlines | Dallas/Fort Worth | 5 | 357 | RJ |
| | Chicago-O'Hare | 2 | 140 | RJ |
| | Philadelphia | 3 | 150 | RJ |
| | Charlotte | 8 | 519 | RJ |
| | Washington-National | 3 | 150 | RJ |
| Delta Air Lines | Atlanta | 9 | 764 | RJ/MD90 |
| | New York-LaGuardia | 2 | 145 | RJ |
| | Detroit | 5 | 250 | RJ |
| | Minneapolis/St. Paul | 1 | 76 | RJ |
| Frontier Airlines* | Denver | 1 | 150 | A319/A320 |
| United Airlines | Chicago-O'Hare | 4 | 240 | RJ |
| | Denver | 1 | 50 | RJ |
| | Washington-Dulles | 2 | 120 | RJ |
| | Houston | 3 | 150 | RJ |
| | Newark | 2 | 200 | RJ / 737 |
| Totals | | 59 | 4,866 | |

*Less than daily service and/or seasonal service in some markets.

| Cargo Airlines | Destination | Daily flights | Daily seats | Aircraft |
|---------------------------|--------------------|--------------------------|------------------------|-----------------|
| FedEx, Inc | Indianapolis | 1 | N/A | A310 |
| | Memphis | 2 | N/A | A310 |
| UPS Airlines | Louisville | 1 | N/A | B757 |

SCHEDULE 21:*Companies conducting business on airport property (unaudited)*

June 30, 2017

Aviation service operators

Aero Advertising, Inc.
 Aircraft Technicians, Inc.
 Consolidated Aviation Services, LLC
 G2 Secure Staff, LLC
 Grande Aviation, LLC
 Horizon Avionics, Inc.
 Jetstar Aviation, LLC
 Knoxville Flight Training Center, Inc.
 MaxAir Charters dba Flight Choice
 Quick Flight
 Smoky Mountain Air Charter Service
 Standard Aero Alliance
 TAC Air
 The Jet Shop, LLC
 Xpress Aircraft Maintenance, LLC
 United Ground Express

U.S. government agencies

Federal Aviation Administration
 Knox County Sheriff's Dept.
 Tennessee Air National Guard
 Tennessee Army National Guard
 Transportation Security Administration

Airline maintenance

ExpressJet
 Endeavor Air (Delta Connection)

Bank ATMs

First Tennessee Bank
 Regions Bank
 Suntrust Bank
 TN State Bank

Concessionaires

Classic Shine
 Five Star Food Service
 HMS Host Corporation
 Knoxville Airport Hotel Company dba
 Knoxville Airport Hilton
 Knoxville Coca-Cola Co.
 Ruby Tuesday, Inc.
 Smarte Carte, Inc.
 Paradies-Knoxville, LLC
 Security Point Media, LLC

Rental car companies

Alamo Rent A Car
 Avis Car Rental
 Budget Car Rental
 Dollar Rent-a-Car
 Enterprise Rent-A-Car
 Hertz Rent-a-Car
 National Car Rental
 Payless Car Rental
 Thrifty Rent-a-Car
 Zipcar

Other

Airport Office Partners, LLC
 ARINC
 CNN Network
 Cirrus Design Corp dba Cirrus Aviation
 Delta Cargo, Inc.
 G2 Secure Staff
 GAT Security Services, Inc.
 Global Logistic, LLC
 Lyft
 Massey Properties, LLC
 National Safe Skies Alliance
 Passur Aerospace
 R Squared Construction
 Remote Area Medical
 Republic Parking System
 SITA
 Uber
 Volunteer Turf, LLC

SCHEDULE 22:*Use of debt proceeds (unaudited)*

Descriptions of the uses of proceeds from the Authority's debt are summarized below.

Airport revenue refunding note**Series 2017A - \$11,000,000**

Proceeds from this debt issuance was used to refund the series 2000 II-D-1 bonds and to terminate the associated interest rate swap.

Local government public improvement revenues bonds**Series 2008 V-A-1—\$84,645,000**

Proceeds from this bond issue were used to refund the Series III-A outstanding bonds in advance of their maturity.

Special purpose revenue bonds Series**2002—\$8,500,000**

The Authority issued these bonds on behalf of Northwest Airlines, Inc., now Delta Air Lines, to construct a regional jet maintenance hangar for their affiliate airline, Pinnacle Airlines, Inc., in the West Aviation Area. The Authority is not at risk for these bonds.

Local government public improvement revenue bonds (retired)**Series 2000 II-D-1—\$18,500,000 (retired)**

Proceeds from this bond issue were used to finance a regional jet maintenance facility for ExpressJet, formerly Continental Express, Inc., and for the West Aviation Area at McGhee Tyson Airport. These were the first bonds issued under the new Master Bond Resolution.

Series 2001 III-A—\$ 95,000,000 (retired)

Proceeds from this bond issue were used for repayment of all outstanding General Obligation bonds, including Series E-1, E-2, II-G-2, III-B-1, III-G-2, and IV-A-1. They were also used for completion of the renovation and expansion of the terminal building at McGhee Tyson Airport, for the West Aviation Area, and for land acquisition.

Series 1999 IV-A-1—\$20,300,000 (retired)

Proceeds from this bond issue were used to finance the renovation and expansion of the terminal building at McGhee Tyson Airport, construct a 750-space public parking lot, and refinance the outstanding Airport Revenue-General Obligation Series G and H bonds.

Series 1999 111-G-2—\$5,500,000 (retired)

Proceeds from this bond issue were used to finance the renovation and expansion of the terminal building at McGhee Tyson Airport.

Series 1998 1MB-1—\$36,500,000 (retired)

Proceeds from this bond issue were used to finance the renovation and expansion of the terminal building at McGhee Tyson Airport.

Series 1997 II-G-2—\$ 8,000,000 (retired)

Proceeds from this bond issue were used to finance the renovation and expansion of the terminal building at McGhee Tyson Airport.

Series 1996 E-2—\$5,350,000 (retired)

Proceeds from this bond issue were used to finance the construction of improvements to the air cargo facilities at the McGhee Tyson Airport and aircraft T-hangars at the Knoxville Downtown Island Airport. They were also used to refinance the outstanding Airport Revenue-General Obligation Bonds, Series F.

SCHEDULE 22:

Use of debt proceeds (unaudited) (continued)

Series 1996 E-1—\$7,150,000 (retired)

Proceeds from this bond issue were used to expand the public garage in front of the terminal building from 1,394 to 2,811 spaces.

Airport revenue—general obligation bonds (retired)

Series 1994 H—\$3,400,000 (retired)

Proceeds from this bond issue were used to refund the remaining Series E outstanding bonds in advance of their maturity.

Series 1993 G—\$8,850,000 (retired)

Proceeds from this bond issue were used for a 619-space expansion to the public parking garage next to the terminal, roadway improvements, and refunding a portion of Series E outstanding bonds in advance of their maturity.

Series 1990 F—\$7,500,000 (retired)

Proceeds of this bond issue were used for certain airport improvements, consisting of an air cargo facility, improvements to the airport terminal, and land for airport development.

The air cargo complex includes three special purpose buildings totaling 54,200 square feet, 430,000 square feet of aircraft apron and more than 300,000 square feet of vehicular parking areas. Improvements to the airport terminal include improvements to the concourses and main terminal building. Land for use by the Authority includes the acquisition of certain tracts within the immediate vicinity of the airport for future airport development.

Series 1988 E—\$10,000,000 (retired)

Proceeds from this bond issue were used for certain airport improvements consisting of a parking structure, an air cargo complex and certain general aviation improvements.

The parking facility is the 775-space public parking garage constructed next to the terminal. The air cargo funds were used for design and earth work for the air cargo complex financed by the Series 1990 F Bonds. The general aviation improvements included ramp pavement in the general aviation area of the airport.

Series 1976 D—\$2,250,000 (retired)

Proceeds were used for improvements to Runways 5R/23L and 5L/23R.

Series 1974 C—\$3,000,000 (retired)

Proceeds were used for improvements to the terminal area.

Series 1972 B—\$4,000,000 (retired)

Proceeds were used to construct a new three-level terminal, terminal apron, taxiway construction and access roads.

Series 1972 A—\$2,220,000 (retired)

Proceeds were used for improvements to the terminal area.

Special facilities revenue bonds (retired)

Series 1969—\$385,000

These bonds were used for the construction of an air cargo building.

Municipal airport bonds (retired)

Series 1963 E, 1961D and 1950-1957—\$2,235,000

These bonds were issued to pay for construction, repairs, and improvements to the McGhee Tyson Airport and the Knoxville Downtown Island Airport.

SCHEDULE 23:*Insurance in force (unaudited)*

June 30, 2017

| Type of policy | Policy insurer | Expiration date | Policy limit | Risk Coverage |
|---|----------------------------------|-------------------|-------------------------------|--|
| Airport Liability (a) | ACE USA | July 11, 2018 | \$200,000,000 aggregate limit | Personal injury and property damage |
| Commercial Property (Includes Terrorism) Boiler & Machinery | Affiliated FM Insurance | June 30, 2018 | \$233,347,382 | Buildings - Fire and other perils (includes contents, rental income and extra expense) |
| Flood Insurance Knoxville Downtown Island Airport | National Flood Insurance Program | October 1, 2017 | \$3,859,400 | Flood |
| Public Officials and Employer Liability | Chartis | December 18, 2017 | \$10,000,000 | Commissioners and employee professional liability |
| Public Employee Dishonesty Bond | Cincinnati Insurance Company | July 27, 2018 | \$500,000 | Employee dishonesty |
| Automobile Liability | Cincinnati Insurance Company | June 30, 2018 | \$1,000,000 | Automobile liability |
| Physical Damage - Two Fire Trucks | National Hangar Insurance Co. | November 29, 2017 | \$1,365,000 | Property damage - two fire trucks |
| Workers' Compensation | North Point/NATA | June 30, 2018 | By Law | Employer's liability - employee bodily injury |
| Employee Health and Dental | CIGNA Health Care | May 30, 2018 | | Employee medical and dental |
| Employee Long-Term Disability | CIGNA | June 30, 2018 | | Employee earnings after 90 days disability |
| Employee Life | CIGNA | June 30, 2018 | | Life, accidental death, and dismemberment |

(a) Includes terrorism and war risk coverage

SCHEDULE 24:

Capital Asset Information (unaudited)

As of June 30, 2017

| | | | | |
|--------------------------------|---|--|----------------------------------|--------------|
| Airport Code: | TYS | | DKX | |
| Location: | Alcoa, TN | | Knoxville, TN | |
| Coordinates: | N35° 48.66' W83° 59.64' | | N35° 57' 49.8" W83° 52' 25.2" | |
| Elevation: | 979 feet | | 833.2 feet | |
| Tower: | 24/7 121.2 | | None | |
| Total acreage: | 2,731 acres | | 166.25 acres | |
| Runways: | RWY 05L-23R RWY 05R-23L | Under construction 9,000 x 150 ft. | RWY 08-26 | 3499 x 75 ft |
| Apron area-sq ft: | Cargo Airlines Fixed Base Operator | 314,284 1,985,064 | | |
| Terminal Complex | Number of passenger gates Number of loading bridges Total area - sq ft Useable space - sq ft Leasable space - sq ft Mechanical - sq ft | 12 10 258,871 227,624 98,222 31,247 | | |
| Parking spaces, number: | Garage: Short-term Long-term Rental Cars Total Garage | 663 1,680 435 2,778 | | |
| | Surface: Short-term Long-term Economy Rental Cars and Taxi Employees Total Surface | 45 695 829 87 472 2,128 | | |
| | Total Parking | 4,906 | | |
| Fixed Base Operator | TAC Air | | | |

Source: Metropolitan Knoxville Airport Authority Engineering and Planning department

COMPLIANCE SECTION

This section contains the following items:

**Schedule of Expenditures of Federal Awards, State
Financial Assistance and Passenger Facility
Charges Collected and Expended**

**Schedule of Long-Term Debt Principal and
Interest Requirements**

Reports of Independent Auditors

Schedule of Findings and Questioned Costs

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS,
STATE FINANCIAL ASSISTANCE AND
PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED**

Year ended June 30, 2017

| Federal Grantor / Pass-Through Grantor | Program Title | CFDA Number | Contract Number | Expenditures |
|--|--|------------------------|----------------------------|---------------------|
| <u>Federal Awards</u> | | | | |
| U.S. Department of Transportation | Airport Improvement Program | 20.106 | N/A | \$ 24,850,752 |
| U.S. Department of Transportation Through Tennessee Department of Transportation- Aeronautics Division | Airport Improvement Program | 20.106 | 47-555-1110-04 | 398,234 |
| | | | | <u>398,234</u> |
| Total Program 20.106* | | | | 25,248,986 |
| U.S. Department of Defense* | National Guard Military Construction Program | 12.400 | W912L7-13-2-2101 | <u>3,483,707</u> |
| TOTAL FEDERAL AWARDS | | | | 28,732,693 |

**Major federal financial assistance program.*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS,
STATE FINANCIAL ASSISTANCE AND
PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED**

Year ended June 30, 2017

| Federal Grantor / Pass-Through Grantor | Program Title | CFDA Number | Contract Number | Expenditures |
|---|--|------------------------|----------------------------|-----------------------------|
| <u>State Financial Assistance</u> | | | | |
| Tennessee Department of Transportation | Airport Improvements – McGhee Tyson Airport | N/A | 47-555-0167-04 | \$ 701,953 |
| Tennessee Department of Transportation | Airport Improvements – McGhee Tyson Airport | N/A | 47-555-0742-04 | 6,285 |
| Tennessee Department of Transportation | Airport Improvements – McGhee Tyson Airport | N/A | 47-555-0747-04 | (9,155) |
| Tennessee Department of Transportation | Airport Improvements – McGhee Tyson Airport | N/A | 47-555-0750-04 | 1,260 |
| Tennessee Department of Transportation | Airport Improvements – McGhee Tyson Airport | N/A | 47-555-0763-04 | 112,942 |
| Tennessee Department of Transportation | Airport Improvements – McGhee Tyson Airport | N/A | 47-555-0768-16 | 733,256 |
| Tennessee Department of Transportation | Airport Improvements – McGhee Tyson Airport | N/A | 47-555-0770-16 | 64,200 |
| Tennessee Department of Transportation | Airport Improvements – McGhee Tyson Airport | N/A | 47-555-0772-16 | 313,195 |
| Tennessee Department of Transportation | Airport Improvements – McGhee Tyson Airport | N/A | 47-555-0774-17 | 4,743 |
| Tennessee Department of Transportation | Airport Improvements – McGhee Tyson Airport | N/A | 47-555-1733-04 | (64,560) |
| Tennessee Department of Transportation | Airport Improvements – Downtown Island Airport | N/A | 47-555-0473-17 | 11,159 |
| Tennessee Department of Transportation | Airport Improvements – Downtown Island Airport | N/A | 47-555-0761-04 | 30,775 |
| Tennessee Department of Transportation | Airport Improvements – Downtown Island Airport | N/A | 47-555-0764-04 | 1,041,674 |
| Tennessee Department of Transportation | Airport Improvements – Downtown Island Airport | N/A | 47-555-1110-04 | 22,125 |
| Tennessee Department of Transportation | Airport Improvements – Downtown Island Airport | N/A | 99-555-1530-04 | (680) |
| Tennessee Department of Transportation | Airport Improvements – Downtown Island Airport | N/A | 47-555-1669-04 | (16,174) |
| TOTAL STATE AWARDS | | | | <u>2,952,998</u> |
| TOTAL FEDERAL AND STATE AWARDS | | | | <u><u>\$ 31,685,691</u></u> |

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS,
STATE FINANCIAL ASSISTANCE AND
PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED**

Year ended June 30, 2017

Passenger Facility Charges

| | |
|---|----------------------------|
| Available at July 1, 2016 | \$ 1,514,167 |
| Charges collected | 3,771,761 |
| Interest earned, net of service charges | (4,385) |
| Total available | <u>5,281,543</u> |
| Expended | <u>(3,902,977)</u> |
| Available at June 30, 2017 | <u><u>\$ 1,378,566</u></u> |

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, STATE FINANCIAL ASSISTANCE AND PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED

1. Basis of Presentation

The above Schedule of Expenditures of Federal Awards, State Financial Assistance, and Passenger Facility Charges Collected and Expended (the “Schedule”) summarizes the federal and state expenditures of Metropolitan Knoxville Airport Authority (the “Authority”) under programs of the federal and state government for the year ended June 30, 2017 and Passenger Facility Charges (“PFCs”) collected and expended for the year ended June 30, 2017. These amounts were obtained from the Authority’s general ledger, which is prepared on the accrual basis. Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, change in net position, and current revenues and expenditures of the Authority.

For purposes of the Schedule, federal assistance includes all grants and contracts entered into directly between the Authority and agencies and departments of the federal government. The awards are classified into major program categories in accordance with the provisions of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Authority did not elect to apply the 10% de minimis indirect cost rate.

2. Passenger Facility Charge Program

The objective of the Passenger Facility Charge program is to authorize public agencies controlling commercial service airports to impose a charge of \$1 to \$4.50 per enplaned passenger. The proceeds from such PFCs are to be used to finance approved, eligible airport-related projects that preserve or enhance safety, capacity, or security; reduce noise; or increase air carrier competition. PFCs are not considered to be Federal financial assistance defined by the Uniform Guidance.

3. Summary of Significant Accounting Policies

For purposes of the Schedule, expenditures for federal assistance programs and PFCs are recognized on the accrual basis of accounting. Federal expenditures are primarily for administering an Airport Improvement Program for Knoxville, Tennessee. The Authority uses PFCs for various improvement project expansions of the airport facilities and payments for debt service on bonds incurred to carry out such projects.

**SCHEDULE OF LONG-TERM DEBT PRINCIPAL
AND INTEREST REQUIREMENTS** *(continued)*

June 30, 2017

Local Government Public Improvement Bonds, Series V-A-I (\$16,950,000 at synthetic fixed rate of 4.05% and \$39,570,000 at a variable rate):

| Year Ended June 30: | Principal | Interest | Total |
|--------------------------------|----------------------|---------------------|----------------------|
| 2018 | \$ 3,940,000 | \$ 1,034,946 | \$ 4,974,946 |
| 2019 | 4,130,000 | 874,577 | 5,004,577 |
| 2020 | 4,335,000 | 706,452 | 5,041,452 |
| 2021 | 4,545,000 | 530,002 | 5,075,002 |
| 2022 | 4,880,000 | 359,616 | 5,239,616 |
| 2023 | 5,115,000 | 314,507 | 5,429,507 |
| 2024 | 5,365,000 | 267,222 | 5,632,222 |
| 2025 | 5,625,000 | 217,628 | 5,842,628 |
| 2026 | 5,905,000 | 165,624 | 6,070,624 |
| 2027 | 6,190,000 | 111,039 | 6,301,039 |
| 2028 | 6,490,000 | 53,819 | 6,543,819 |
| Total | \$ 56,520,000 | \$ 4,635,432 | \$ 61,155,432 |

SCHEDULE OF LONG-TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS

June 30, 2017

Airport Revenue Refunding Note, fixed rate of 1.95%:

| Year Ended June 30: | Principal | Interest | Total |
|--------------------------------|----------------------|---------------------|----------------------|
| 2018 | \$ 1,185,000 | \$ 212,664 | \$ 1,397,664 |
| 2019 | 1,220,000 | 189,502 | 1,409,502 |
| 2020 | 1,245,000 | 165,674 | 1,410,674 |
| 2021 | 1,280,000 | 141,342 | 1,421,342 |
| 2022 | 1,310,000 | 116,335 | 1,426,335 |
| 2023 | 1,340,000 | 90,744 | 1,430,744 |
| 2024 | 1,370,000 | 64,567 | 1,434,567 |
| 2025 | 1,400,000 | 37,806 | 1,437,806 |
| 2026 | 650,000 | 11,669 | 661,669 |
| Total | \$ 11,000,000 | \$ 1,030,303 | \$ 12,030,303 |



Report of Independent Auditors on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards

Board of Commissioners
Metropolitan Knoxville Airport Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Metropolitan Knoxville Airport Authority (the "Authority") (a component unit of the City of Knoxville, Tennessee), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 15, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Commissioners
Metropolitan Knoxville Airport Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Coulter & Justus, P.C.

November 15, 2017
Knoxville, Tennessee



Report of Independent Auditors on Compliance for Each Major Program and the Passenger Facility Charge Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Commissioners
Metropolitan Knoxville Airport Authority

Report on Compliance for Each Major Federal Program and Passenger Facility Charge Program

We have audited the Metropolitan Knoxville Airport Authority's (the "Authority's") (a component unit of the City of Knoxville, Tennessee) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal programs and the compliance requirements of the Passenger Facility Charge ("PFC") program as described in the *Passenger Facility Charge Audit Compliance and Reporting Guide for Public Agencies* for the year ended June 30, 2017. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs and the PFC program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal programs and PFC program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the *Passenger Facility Charge Audit Compliance and Reporting Guide for Public Agencies*, issued by the Federal Aviation Administration. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs or the PFC program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal programs and PFC program. However, our audit does not provide a legal determination of the Authority's compliance.

Board of Commissioners
Metropolitan Knoxville Airport Authority

Opinion on the Major Federal Programs and the PFC Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs and the PFC program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal programs or the PFC program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and the PFC program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Coulter & Justus, P.C.

November 15, 2017
Knoxville, Tennessee

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

| | |
|--|---------------|
| Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | None reported |
| Significant deficiency(s) identified? | None reported |
| Noncompliance material to financial statements noted: | No |

Federal Awards

| | | |
|--|---------------|---|
| Type of auditors' report issued on compliance for major programs: | Unmodified | |
| Internal control over major programs: | | |
| Material weakness(es) identified? | None reported | |
| Significant deficiency(s) identified? | None reported | |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | None reported | |
| Identification of major programs: | CFDA Number | Name of Program |
| | 20.106 | <i>Airport Improvement Program</i> |
| | 12.400 | <i>National Guard Military Construction Program</i> |
| Dollar threshold used to distinguish between Type A and Type B programs: | \$861,981 | |
| Auditee qualified as low-risk auditee? | No | |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)*Year ended June 30, 2017***Section II – Financial Statement Audit Findings**

None reported.

Section III – Single Audit Findings

None reported.

Section IV – Corrective Action Plan

Not applicable as there were no 2017 findings reported.

Section V – Schedule of Prior Year Audit Findings

The following information is provided by management of the Metropolitan Knoxville Airport Authority. The contact person is Nancy White.

2016-1: The Metropolitan Knoxville Airport Authority (the “Authority”) has expanded the detailed record keeping to include the grant accounting by project and grant. The records have been designed to provide appropriate allocation of expenses between the different programs providing funding to the Authority. The detailed record keeping is reviewed and reconciled by the controller prior to the request for funding. The Vice President of Engineering and Planning also reviews on an ongoing basis and the Vice President of Finance and Administration reviews and approves all funding requests for appropriateness.

Additionally, the Authority staff attended a training session which reviewed and emphasized reporting criteria for the SEFA.



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AIRPORT
AUTHORITY

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